

PROPOSALS TO IMPROVE THE HOUSING VOUCHER PROGRAM

HEARING BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON

PROPOSALS OUTLINED IN THE HOUSING VOUCHER IMPROVEMENT ACT
OF 2002 TO IMPROVE THE SECTION 8 HOUSING CHOICE VOUCHER
PROGRAM

APRIL 11, 2002

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PROPOSALS TO IMPROVE THE HOUSING VOUCHER PROGRAM

THURSDAY, APRIL 11, 2002

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 2:50 p.m., in room SD-538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. The hearing will come to order.

I would like to apologize to my colleagues and the witnesses for the delay. I was held up in the Capitol, and I just could not get out of the situation in which I found myself.

Since November of last year, we have had three hearings in the Committee to discuss the increasing demand for affordable housing throughout the country. The testimony at these hearings has shown pretty conclusively that housing for many working families, as well as the poor, is becoming less and less affordable. Indeed, the data shows that it is working families who are increasingly feeling the pinch of rents that increase faster than their wages.

A number of the witnesses we have heard from in the past several months have made proposals to address this growing need, for example, the National Housing Trust Fund. Many of us in the Congress support additional funding for the construction of new affordable housing. Others would take a different approach. Senator Jack Reed of Rhode Island, who chairs our Subcommittee on Housing and Transportation, has been exploring these issues and will continue to do so.

There does seem to be widespread agreement that housing vouchers are an important and invaluable part of our Nation's housing policy. Both the previous and the current Administrations have consistently included an increase in the number of housing vouchers in their budget requests for the Department of Housing and Urban Development, and I and many others have strongly supported these efforts.

However, we have also heard from housing authorities, low-income families, housing advocates, and landlords that there are a number of difficulties in making the vouchers work, particularly in low-poverty areas. The Housing Voucher Improvement Act of 2002, the subject of our hearing today, is designed to respond to these difficulties and to make vouchers a more effective tool for providing affordable housing to American families who need help.

The legislation, amongst other things, provides funds to finance outreach by program administrators to landlords in an effort to broaden housing choices; to help voucher holders search for housing, particularly in lower poverty neighborhoods by, for example, providing transportation services; and to help with application and credit check fees for voucher holders.

The bill would also: allow housing authorities to increase their payment standards where there is strong evidence that this is needed to improve voucher utilization; and, to make it easier to pair vouchers with existing tax credit and HOME projects, so that the families with the most severe housing problems can have some access to this housing.

In addition, the bill proposes a new kind of voucher, called Thrifty Production Vouchers. These are project-based vouchers designed to be used in newly constructed housing that also receive capital subsidies, such as HOME funds or tax credits, thereby seeking to enable these new developments to serve very low-income families. Thrifty Vouchers would seek to encourage the development of new affordable housing in areas that are more accessible to jobs, shopping, better schools, and transportation. No more than 25 percent of the units in any new development would be able to have these vouchers attached, so that we can ensure that the new developments are mixed-income developments.

We, in fact, passed important public housing legislation in this Committee a few years ago, designed to encourage a greater mix of income in public housing.

I have asked my staff to distribute a discussion draft of this legislation to Members of the Committee, to the Administration, HUD, and to outside groups who have had experience with a voucher program. And our intent, of course, is that this hearing be the beginning of a process that will result in real improvements in this very important program.

Now to begin the conversation, first, I will turn to my colleagues and then I will present the members of the panel.

Senator Miller.

COMMENTS OF SENATOR ZELL MILLER

Senator MILLER. Thank you, Mr. Chairman, but I think I will pass for the time being.

Thank you.

Chairman SARBANES. Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. Mr. Chairman, I appreciate your holding this hearing. I have a formal statement that I would like included in the record.

This is an issue that is extraordinarily important to my State. We have many people on waiting lists to get access to vouchers. We have a problem that really isn't the heart of this bill—low-income housing availability to apply the vouchers.

Plenty of people want them. Plenty of people qualify, and not much place to go because of the lack of available housing. I hope we will be able to address some of that as well.

Thank you, Mr. Chairman.

Chairman SARBANES. The full statement will be included in the record. Thank you.

Senator Akaka.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman, for holding this hearing and for your bill that we hope will alleviate the housing situation.

We know that we have a terrible housing problem facing low- and moderate-income families. This appears to be a way of helping these people. We know that there needs to be some changes, which you seem to try and address with this legislation.

To alleviate this problem, some States, including the State of Hawaii, have expanded their rental assistance programs. The purpose of the program is no longer solely to provide qualified landlords with rental assistance subsidies which assist eligible tenants to make their payments. Rather, the State of Hawaii has expanded the program to offer interim construction financing for rental projects and to provide qualified landlords with incentives to participate in the Section 8 program. The State of Hawaii has also partnered with nonprofit organizations in privatizing public housing units.

Hawaii is not the only State that is expanding its Section 8 program. Many States are trying to stretch valuable and limited housing resources to provide eligible families with affordable housing.

In looking at your bill, it is an answer to this problem. I look forward to working with you and the Committee in ensuring that the Section 8 housing voucher program meets these new challenges.

I ask that my full statement be placed in the record.

Thank you, Mr. Chairman.

Chairman SARBANES. The full statement will be included in the record.

I am always struck, actually, as I was listening to you, about the Hawaii experience and how many different areas Hawaii has taken initiatives and instituted policies that really should command our attention. I know in the health care field, Hawaii has done a number of very innovative things as well.

Let me turn to the panel. I will introduce each witness one at a time.

Our first panelist is Ophelia Basgal, Executive Director of the Housing Authority of Alameda County and Dublin, California. She has 26 years of experience—she began as a mere child—in affordable housing development and management, including public housing and Section 8 programs, use of community development block grants and redevelopment loans and grants and various other HUD programs.

In addition to her work with housing authorities, Ms. Basgal has also completed several private consulting contracts on housing issues and she is also a member of the Millennial Housing Commission which will be reporting in the not too distant future.

We are very pleased that she is here with us today. We would be happy to hear from you.

**STATEMENT OF OPHELIA B. BASGAL
EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF
ALAMEDA COUNTY AND DUBLIN, CALIFORNIA
ON BEHALF OF THE
NATIONAL ASSOCIATION OF HOUSING AND
REDEVELOPMENT OFFICIALS**

Ms. BASGAL. Thank you, Chairman Sarbanes.

I would like to express my gratitude to you and the other distinguished Members of the Senate Committee on Banking, Housing, and Urban Affairs for inviting me to testify on the draft proposal to improve the Section 8 Housing Choice Voucher Program.

I am testifying today on behalf of the National Association of Housing and Redevelopment Officials, the acronym of NAHRO, which you probably know is one of the Nation's oldest and largest organizations that represents housing and community development agencies and their issues. Today, we are focused primarily on local housing agency and the administration of the Section 8 programs, since that is the primary issue in this bill draft.

We certainly acknowledge, and I think the bill does also, that the program has been quite successful. But clearly, there are areas of concern. And we also are concerned about the full utilization of funding and the appropriated units to address the housing needs that many of you have spoken to. We believe that this draft bill certainly outlines a number of proposals that will go a long way toward improving the utilization rate and the program effectiveness, and many of the recommendations parallel recommendations that the NAHRO membership's itself has put forward to help broaden the housing choices for many low-income families and yield more economic development opportunities for those who participate in the program.

Specifically, we certainly see the Section 8 program as only one tool in the toolkit that the Nation has to address housing needs. And the aspect of the thrifty production vouchers, we clearly, as Senator Akaka indicated, and also Senator Corzine, the vouchers are of no use if there is no units where they can be used. Anything that also helps increase the supply of units we believe is very important and we believe that the thrifty production vouchers is one possible way to do that. We believe that it probably should start as a demonstration program, given the fact that it is not fully defined and modeled yet as to how it might work out in the field, and we may want to start slowly and see how that goes.

We heartily support the bill's recommendations on ways to improve housing search activities by providing funding. While it is true that housing authorities' administrative fees certainly anticipate that housing search assistance is part of that fee, in difficult rental markets, we simply cannot provide the kinds of services that families really need to be able to improve their chances when they locate landlords willing to rent to them, and particularly to go into low-poverty neighborhoods and areas where there are jobs and opportunities for them to improve their economic opportunities as families.

The provisions in the bill that address the fair market rents and how voucher payment standards are set is also very welcome by increasing the discretion that housing authorities have to respond

quickly, as rental markets change and rents increase, rather than having to go through a process of waivers with HUD and authorization to increase voucher payment standards. The discretion that this bill would provide would help housing authorities to respond quickly to changing rental markets.

What appears to be a very simple recommendation in this bill, which is actually very valuable is just providing information to housing authorities in one central location of where low-income housing tax credit projects are and HOME funds so that we can refer our families to those, is critical. And actually, what we need to know is when they are close to opening those projects because that is when families have an opportunity to rent units. Certainly, after the fact is valuable, but even earlier in the development of the units is even more important to us.

Also the reallocation issue of underutilized vouchers we believe is critical. There is no question that NAHRO supports the reallocation of the vouchers to where they can be used. And we do have some concerns that the reallocation seems to also be attempting to use regionalization of the Section 8 program as a way to achieve an efficient use of the vouchers that are reallocated.

We have some questions about that and believe it raises administrative difficulties that perhaps the bill does not fully consider.

We also support the expansion of the self-sufficiency efforts that are in the bill. We believe that those are needed and welcome those giving families further opportunity to seek jobs, have incentives to do so, and we support the bill provisions.

And finally, the proposals on inspections which really go a long way to addressing some of the issues that landlords have concerns about, and delays in inspection processes in getting the units under contract, as I am sure my co-testifier here will say, is that having to hold units off the market while you are waiting for an inspection, while we would certainly like to believe that the delays are limited, certainly, as a private landlord, most of them are not in the business of holding units off the market when they are ready to rent. And this bill does address some of those.

I would be happy to amplify on that testimony and answer any questions as we proceed.

Thank you.

Chairman SARBANES. Good. Thank you very much.

Our next presenter is Scott Gardner, who is the President of the National Apartment Association; and the President of Crosshaven Properties, a property management company based in Tulsa, Oklahoma, which actually specializes in Federally subsidized and tax credit properties.

Mr. Gardner has been in property management for over 20 years and has managed residential properties, including subsidized apartments, conventional multifamily housing, homeowners' associations, as well as commercial and retail properties.

Mr. Gardner, we are pleased to have you with us today, and we would be happy to hear from you.

**STATEMENT OF SCOTT GARDNER
PRESIDENT, NATIONAL APARTMENT ASSOCIATION
AND CROSSHAVEN PROPERTIES, INC.**

Mr. GARDNER. Thank you, Mr. Chairman.

Mr. Chairman, distinguished Members of the Banking, Housing, and Urban Affairs Committee, my name is Scott Gardner. I am President of Crosshaven Properties, a privately operated apartment management company headquartered in Tulsa, Oklahoma. And as the Chairman said, I am also President of the National Apartment Association. The National Apartment Association operates a Joint Legislative Program with the National Multi-Housing Council, a trade association representing the Nation's largest apartment firms. It is my pleasure to testify on behalf of both organizations.

First, we commend the Committee Members for your valuable work in addressing affordable housing in America. We, too, believe that meeting the housing needs of low- and moderate-income families is critical. We agree with those on the Committee and in the housing community who believe that the Section 8 Housing Choice Voucher Program can be one of the most effective means of expanding assets to decent and affordable housing. But we also believe the program must be improved to be more transparent, and to be less costly and burdensome in order to attract greater participation by private property owners. Without this, the Section 8 purpose of assisting low-income people cannot be realized.

Chairman Sarbanes, we appreciate your leadership on this issue and we support many of the provisions of the proposed Housing Voucher Improvement Act, particularly the proposed provision to improve the unit inspection process. But, even with that important reform, the proposed legislation falls short of creating transparency and fully incorporating the reforms necessary to generate a broader private owner participation in the Section 8 program.

My statement today will focus on four key proposals that we believe would improve owner participation and voucher utilization: One is improving the Housing Quality Standards Unit Inspection Process; two, improving the Subsidy Payment System; three, increasing the payment standard; and the fourth, amending the lease addendum.

First, improving the Housing Quality Standards Unit Inspection Process. Currently, before an apartment is eligible to lease to a Section 8 voucher holder, the administering Public Housing Authority, or PHA, must inspect that unit for compliance with HUD-prescribed Housing Quality Standards, or HQS. We agree the voucher holder should reside in a safe, sanitary environment, but we believe that this can be achieved without conducting individual unit inspections.

Although we strongly support Section 9's proposed intent, we advocate the total elimination of individual unit inspections. Instead, we would encourage the PHA's to rely on previously conducted property-level inspections by HUD or the property lenders. These alternative inspections would eliminate duplication of effort and reduce occupancy delays caused by untimely unit inspections.

Second, improving the Subsidy Payment System. One key element of program administration that would improve participation in the marketplace is improving the Subsidy Payment Structure.

Just as owners would not regularly accept late rental payments from non-Section 8 tenants, they must not be forced to accept late subsidy payments. Although HUD's regulations allow for sanctions against PHA's for untimely payments, such sanctions are nominal and are not an incentive for prompt payment.

One way to achieve the goal of transparency would be to require that all PHA's make automated electronic fund transfers, thereby assuring timely subsidy payments and substantially reducing costs for both owners and the PHA's.

Third, increasing the payment standard. Both the payment standard generally and the Fair Market Rents, or FMR's, specifically are far too low to support widespread owner participation. FMR's must be high enough to encourage owner participation and, in turn, create a sufficient supply of apartments.

It is for this reason that NAA and NMHC recommend that the FMR be based on at least the 50th percentile of area median rents. We urge that the payment standard be raised to 120 percent of the FMR in high-cost areas and the PHA's be allowed to raise them to 150 percent in areas where the voucher utilization rate is less than 80 percent, and where 95 percent available apartments are already occupied.

We also propose that such increases be authorized where voucher utilization rates were less than 80 percent for the previous 6 months, not the proposed 12 months. We feel that 6 months is an adequate period to determine the need for higher utilization rate, and 12 months will only serve to discourage owner participation by keeping the subsidy payments too low.

And finally fourth, amending the lease addendum. The proposed bill does not address amending the lease addendum. HUD requires owners to increase its standard addendum in each of the Section 8 leases.

The addendum contains numerous provisions that may override local practice and even landlord-tenant laws—by the way, NAA and NMHC prefer owner-resident—and/or necessitate additional costs that we do not ordinarily expend on our standard, nonsubsidized leases.

We propose the elimination or modification of this lease addendum to reflect the standards used with the market leases, thereby reducing administrative burdens and other costly procedures. Alternatively, we propose establishing pilot programs to test alternatives with the current lease addendum.

In summary, we support the Section 8 program and wish to engage more fully in it. However, such participation is not economically feasible without reforming the program to reduce its significant costs and burdens on some apartment owners. I thank you for the opportunity to testify on behalf of the National Apartment Association and the National Multi-Housing Council, and wish to offer our assistance as the Committee continues with its important work toward creating a more efficient program.

Thank you.

Chairman SARBANES. Thank you very much, sir.

Our next presenter is Ann O'Hara, Cofounder and Associate Director of Technical Assistance Collaborative, and Director of TAC housing center for people with disabilities.

The Technical Assistance Collaborative has offices in Boston, Sante Fe, and New Albany, Ohio. It is a national organization that advocates on behalf of people with disabilities or other special needs by providing information and technical assistance to organizations in the areas of mental health, substance abuse, human services, and affordable housing.

Before joining TAC, Ann O'Hara served as Assistant Secretary for Housing and Director of Rental Assistance for the Commonwealth of Massachusetts, and was responsible for the administration of 12,000 Section 8 certificates and vouchers.

Ms. O'Hara, we would be happy to hear from you.

**STATEMENT OF ANN O'HARA, ASSOCIATE DIRECTOR
TECHNICAL ASSISTANCE COLLABORATIVE
ON BEHALF OF THE
NATIONAL LOW INCOME HOUSING COALITION**

Ms. O'HARA. Thank you.

Chairman Sarbanes and Members of the Committee, I am honored to testify today on proposals to improve the voucher program. And I appreciate the opportunity in particular to join the other witnesses on this panel to discuss a subject that is very important to our Nation's housing policy.

I am here today on behalf of the National Low Income Housing Coalition, representing its members nationwide who share the goal of ending the affordable housing crisis.

For the next few minutes, I would like to focus mainly on addressing the problems of voucher utilization, which have been well documented in various reports and studies. With 3.8 million extremely low-income families facing worst-case housing needs, it is critically important that the full benefits of the voucher program be realized. Otherwise, the promise of a voucher turns into a cruel reality for low-income households who have been on waiting lists for years and years.

The problems which this bill helps to address can be illustrated by one man that I know who would not have been able to use his voucher without the intervention of national disability organizations. Matthew Bausch is a 28-year-old man who was injured in a diving accident. He is now a quadriplegic and uses a wheelchair. Matthew needed a voucher when he moved to South Florida for treatment at the Spinal Cord Rehabilitation Center. Because new vouchers for people with disabilities have been appropriated by Congress, Matthew got a voucher within a year. But after a 90-day search, Matthew had not identified any units, whether accessible or not, that could fit within the program guidelines. Finally, we helped Matthew obtain a list of Federal low-income housing tax credit properties in Florida and a vacant, partially accessible unit was located for him. However, that is when Matthew's problems really began.

First, the management company refused to accept the voucher until disability advocates contacted the State's tax credit-allocating agency to intervene with the owner. Once that problem was solved, another one emerged. The tax credit rent was higher than the PHA's voucher payment standard and the PHA initially refused to approve an exception. That decision was eventually overturned, but

not before Matthew almost lost the unit to another prospective tenant.

The National Low Income Housing Coalition believes that the policy changes in the proposed Housing Voucher Improvement Act would help all low-income families, not just people with disabilities, to successfully use vouchers. These changes include using up to 2 percent of Section 8 funding for housing counseling and related activities, and a new voucher success fund.

The proposed flexibility to increase the payment standard and strengthen the linkage of vouchers to Federal home and tax credit finance units, as mentioned by Ms. Basgal, will also help expand the supply of good quality units that accept vouchers, which is an important strategy since most jurisdictions do not have voucher antidiscrimination policies.

Given the tools that would be provided in this legislation, the Coalition also supports the reallocation of vouchers when a PHA, after receiving appropriate notice, is unable or unwilling to make improvements.

However, we recommend that a broader public notice to tenant organizations and other concerned members of the community should be provided by HUD so that these groups could try to work with the PHA's when they are first alerted to their inadequate utilization rate. Because of the importance of linking housing and TANF policies, we also support the provisions which would help tenants achieve greater economic well-being, including permitting voucher-holders to participate in the Resident Opportunity Self-Sufficiency program, additional service coordinators for family self-sufficiency, and authorizing employment and family reunification incentives through income disregard policies.

Finally, we would like to express our support for the Thrift Voucher Production Program, and the policy-linking vouchers to production strategies for people with the lowest incomes.

We recommend that the siting and owner waiting list provisions of this bill also be applied to the project-based voucher legislation that was passed in the year 2000. However, we also want to make known that protections need to be in place for people on housing authorities' tenant-based lists if we are going to also advocate for owner- and project-based lists.

Again, I would like to thank you for the opportunity to be here today and also to answer any questions that you may have.

Chairman SARBANES. Thank you very much.

Our closing panelist will be Benson "Buzz" Roberts, who directs the Local Initiatives Support Corporation—LISC—and its public policy and Government relations activities.

LISC, as we well know, is a national nonprofit organization that has provided over \$3 billion in financing and organizational support to nonprofit community-based development corporations through 40 local offices and the national rural program.

Mr. Roberts has been involved in the creation of such policies as the Low-Income Housing Tax Credit, the New Markets Tax Credit, and the HOME Housing Development Program.

He is a Board Member of the Center for Community Change, the National Association of Affordable Housing Lenders, and the Na-

tional Housing Conference, and co-author of several books and articles on affordable housing and community development.

Buzz, we are pleased to have you here. We would be happy to hear from you.

**STATEMENT OF BENSON F. ROBERTS
VICE PRESIDENT FOR POLICY
LOCAL INITIATIVES SUPPORT CORPORATION**

Mr. ROBERTS. Thank you very much, Mr. Chairman, and good afternoon to you and to the Committee Members as well. I am very pleased to be here today to speak particularly on behalf of the Thrifty Production Voucher proposal that is contained in the bill.

Through our work, we have helped nonprofit community development groups to build or rehabilitate well over 110,000 units of housing, and we use resources like the Low-Income Housing Tax Credit and HOME in that effort. They are excellent programs. But there is a limitation to what they or any other capital subsidy program can do to serve people at the lowest end of the income ladder.

Extremely low-income people with incomes under 30 percent of median simply cannot afford to pay rents high enough to cover the basic costs of operating a property. That means that even if you were to provide a subsidy to cover the entire cost of development and there were no mortgage that you needed rent revenues to pay off, the housing would still be unaffordable. And that is really what Thrifty Production Vouchers are designed to address. It is a very important gap in our housing system.

Now, the obvious solution to this would be to provide some kind of project-based rent subsidy targeted toward these families. And the problem we have had in getting the Congress to provide funds for that is that the cost of renewing those subsidies year after year after year is daunting. Even the cost of renewing a tenant-based voucher is \$6,000 a year and the appropriators are reluctant to do too much of that. And so, the Thrifty Production Voucher approach is designed to address this cost issue.

What makes Thrifty Production Vouchers thrifty is that they would use a different payment standard. Now, most tenant-based vouchers are based on a fair market rent or some small increment above that. Let us say that that level would be a \$700 payment standard. A low-income tenant can afford \$200. That gap of \$500 is what it would cost for the rent subsidy.

A Thrifty Production Voucher is different because instead of being based on that fair market rent, the payment standard would be based on the actual operating cost of the property, not including the mortgage. In most cases, that is going to be a much lower payment standard and that gap is going to be much smaller to fill.

And that is why the Thrifty Production Voucher can cost less. It is not that the tenant is paying more, but it is that the payment standard is lower. It is a simple math problem and a simple math solution. There would be a cap set on the total eligible operating expenses equal to 75 percent of the tenant-based voucher payment standard, and that is designed to make sure that thrifties live up to their name. And if the operating cost is below that cap, then the savings are going to be even greater.

We estimate that at least there will be about a one-third savings below the cost of a regular tenant-based voucher, and in high fair market rent areas, like Newark, for instance, or the Bay area, or Boston, the savings would be dramatically greater.

We are looking carefully at some low fair market rent areas, particularly rural areas, to see that this approach is going to work. It may need some modification in those areas. But we think the basic approach will work in the vast majority of areas.

A key element here, as Mr. Chairman, you mentioned, is that these vouchers would generally be limited to 25 percent of the units in a property. And that is important for several reasons.

First, as you suggest, it will promote mixed-income housing. We want to avoid the overconcentration of very poor people all in the same buildings.

Second, it will make sure that the properties remain disciplined by the private market. Most of the units in that property will not have project-based subsidies attached to them and landlords will have to make sure that those properties are competitive in the market. We think that is a very important and healthy aspect.

And third, this approach would enable the owners to submit their own actual operating budgets and for those to be generally acceptable for purposes of setting the subsidy level. That makes sense because owners would have no motivation to be wasting money on an entire property if they are only going to get reimbursed for the costs on up to a quarter of the units in that property. They will be encouraged to manage costs, we think appropriately. And they won't have to worry about some governmental entity coming in and second-guessing their operating practices or budgets. Again, they would have to stay under that cap, at least.

In summary, Thrifty Vouchers would really meet a need no other part of the housing programs currently meet. That is why they have already won the support from several national organizations, including the National Low Income Housing Coalition, the Center for Budget and Policy Priorities, the Council of State Community Development Agencies, the Enterprise Foundation, the National Association of Counties, the National Association for County Community and Economic Development, the National Association of Local Housing Finance Agencies, the National Community Development Association, the National Council of State Housing Agencies, and the U.S. Conference of Mayors.

That concludes my testimony, and I thank you very much for your time.

Chairman SARBANES. Thank you very much. It is a very, very helpful panel.

As penance for my delayed arrival, I am going to defer my questioning to the end and yield to my colleagues first.

Senator CORZINE.

Senator CORZINE. Well, I have to tell you that I am not sure I can fully understand how this Thrifty Voucher Program works in these high-cost areas, and how do you feel the incentive for the local private producer or production would work.

I would ask Mr. Roberts to comment on that, and Mr. Gardner.

Mr. ROBERTS. There are two kinds of developers. Some are non-profit developers and they will have a mission motivation to work

these Thrifty Production Vouchers into their properties, and will be happy to do so.

Many profit-motivated developers who are seeking allocations of low-income housing——

Senator CORZINE. You are talking about HOPE 6 project kinds of——

Mr. ROBERTS. They might be. But they might be low-income tax credit properties.

Chairman SARBANES. Mr. Roberts, if you could pull that microphone closer, it would be helpful.

Mr. ROBERTS. They could be HOME-assisted properties. A wide range of properties, really. Everyone who competes for allocations of low-income housing tax credits does so according to a State's allocation plan.

There is a Federal requirement that one of the allocation criteria is the commitment to serve especially low-income people. So the Thrifty Production Voucher is going to permit applicants for housing credit allocations to address that priority. And that is going to be a very attractive tool for anybody who wants to compete effectively. In many States, there are two and three times as many applicants for housing credit allocations as can be accommodated. I believe there will be a strong motivation,

Mr. GARDNER. I believe the Thrifty Voucher Program probably would be a good thing for new production of units.

However, the key here is to get participation by existing unit landlords. The broader participation by landlords is going to address the problem I believe more quickly and more efficiently than the production of the new units, which can be held up as long as 6 months from the time it begins.

Our position is that if we can make the program more owner-friendly, then that would encourage more owners to participate in the program and even in the high-cost areas, if you can raise the FMR's to a sufficient level, then you are going to be able to get participation from these owners.

Senator CORZINE. It is really a different issue, though, than how you utilize these Thrifty Production Vouchers, if I understand it right. Can you give me a specific example? In Newark, you cited, and it sounded like you had thought about that question. And I might follow up on the pursuit of the specifics of this to be able to understand it a little more clearly on the specific application.

Mr. ROBERTS. Sure. Let us say that you are in the central ward of Newark and you were building a 100-unit apartment complex. You are assembling your financing at that time, so you would go to the State for an allocation of housing credits. You would probably go to the city because you will probably need some HOME funds. You would go to a bank because you will probably need a first mortgage. And you would go to the public housing authority to get an allocation of Thrifty Production Vouchers.

Now under the bill, the housing authority has to coordinate with other administrators of capital subsidies so that it will be easy for you to, in effect, do one-stop shopping for the resources you need to assemble your project.

You would underwrite the property according to what the overall rents would be. The Thrifty Voucher would be available for, say, 20

units, 25 units, maybe. They would not generate any revenue available to pay a mortgage.

But it also means that if you are a nonprofit community development group and part of the purpose for developing this housing is to serve the residents of your neighborhood, including the poor residents, that now, you no longer have to jump through hoops in order to figure out how you are going to serve those people because you will have these vouchers that will ensure that you can cover your operating expenses for those units. And then you could use the other 75 units in the property to help pay off the mortgage. That is basically how it would work.

Senator CORZINE. Thank you, Mr. Chairman.

Chairman SARBANES. Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman.

First, I appreciate the opportunity to place an opening statement in the record.

Chairman SARBANES. Certainly.

Senator STABENOW. And I want to thank you for your leadership and the proposals that you have put forward.

I wonder if I might speak for a moment on Section 8 and ask you about the Section 8 rule which prohibits a family from paying more than 40 percent of their income for rent. This has been raised by a number of people involved in housing in Michigan. There is a growing concern that the 40 percent rule is impeding families from being able to get a Section 8 voucher.

If PHA's are experiencing an underutilization of the vouchers, and in jeopardy of losing them, do you think that amending the 40 percent rule would enable a significant number of families to be able to secure housing and obligate their voucher, or do you think that that is not a direction that we should go in? I am wondering if you could speak a little bit about the pros and cons of the concerns that have been raised?

Ms. BASGAL. Certainly. I understand that the reason the 40 percent cap was put in originally was the thought that families really should pay a reasonable amount of their income for rent. And it is 40 percent now based on the adjusted income, so this is after we go through our income calculations and arrive at the deductions and all of that. It is a problem.

In our area, the number of units that we turn down on a monthly basis, we track the reasons for those. A full 20 percent of the units that we have to deny in the period of time that we have been tracking them have been because families exceed the 40 percent of income. And I would say that we are one of the MSA's that has the higher rents. Our rents are at the 50th percentile and, in fact, of the twelve cities that we serve, nine of those are set at 120 percent of the 50th percentile rents. So it is not because our payment standards are too low.

It is very hard to explain to a family who is currently paying 60 or 70 percent of their income for rent, that they have found a place that results in them paying 42 percent of their rent and we cannot approve the unit.

We certainly try to negotiate with landlords and do everything that we can and there are ways to do it. But simply, we believe that a change, even as simple as making it 40 percent of gross income, would make many families eligible who currently cannot meet the test.

Senator STABENOW. Is that something that you would support?

Ms. BASGAL. Yes.

Senator STABENOW. Would anyone else like to address that?

Ms. O'HARA. I would. I think those of us who have been around the Section 8 program as long as I have can remember when tenants paid 25 percent of their income for rent. And the current standard of 30 percent, the National Low Income Housing Coalition believes, is really the correct amount in terms of tenants being able to comfortably afford, particularly extremely low-income tenants.

So, we would not support the 40 percent, but feel that, really, at that point, the subsidy needs to be increased rather than the share of the tenant's rent.

Senator STABENOW. Anyone else?

[No response.]

Okay. Another question. We are going to be dealing with welfare reform coming up in the next several months. And I am wondering if any of you would like to offer your thoughts on the connection between TANF and housing.

Ms. O'Hara, you discussed a little bit about this in your testimony, but I wondered if any of you would like to talk about the role of Section 8 as it relates to what we are going to be having to address related to TANF.

Ms. BASGAL. We work relatively closely with our social service agency in their efforts to meet the requirements of welfare reform, and are actually one of their more successful community-based organizations that they contract with. We only work with our particular clientele, but we have found that the combination of housing assistance with activities aimed toward getting people to work are very successful.

We see clients much more often than our social service agency does, and have a more established relationship with them. They also have a long-standing family self-sufficiency program and those efforts seem to come together in a way to be very effective working with this particular population.

Peculiarly, for us, the area that I am from, we have an extremely large Afghan population. We are one of the few social service agencies that has people who speak the language that they speak. And so, we are able to serve that population and have been very effective in getting those families to work when other agencies have not been able to.

Clearly, there is a link we would encourage in the TANF efforts that you seriously consider requiring closer kinds of consultation of social service agencies with housing authorities, and that those services be better linked than they are now because it took me almost 2 years to get the social service agency to realize we could partner with them.

Senator STABENOW. Yes.

Ms. O'HARA. I would just like to add that the coalition is currently working right now with several groups on specific pro-

posals* for better linkage between TANF and housing programs, and we would be happy to submit those to the Committee.

Mr. ROBERTS. The only thing I would add is that there is some research that shows that welfare recipients who do have housing subsidies have an easier time getting off the welfare rolls and staying off the welfare rolls. So there is a link between housing stability and family self-sufficiency.

Senator STABENOW. And if I might just ask one more question, Mr. Chairman.

Senator Mary Landrieu and I have begun a process of working on the issue of grandparents raising grandchildren. We have about 2 million grandparents right now raising grandchildren. There are very unique obstacles that they have in raising grandchildren.

We are beginning to look at the administration of Section 202 and Section 8 to see what barriers there are for what is called grandfamilies. We are finding that Section 202 properties do not allow children and Section 8 properties may not be tailored to the unique needs of these families. And I am wondering if any of you would want to speak to that since it is a growing challenge in a family unit that we believe that we need to recognize.

Ms. O'HARA. We have a wonderful program in Boston, actually, that was developed a number of years ago. Perhaps we will talk about the same project. It is a program that links debt-free capital funding with project- and tenant-based Section 8's, along with support services for the grandparents.

Senator STABENOW. I am wondering if we were to do some kind of pilots that allowed grandparents and children to be in our housing, if that kind of thing is something you would support.

Mr. ROBERTS. Absolutely. As you just heard, we were very deeply involved in this Boston pilot and we are working now in Chicago and other places on other similar grandfamilies projects, and we would love to work with you on that.

Ms. BASGAL. Let me suggest one thing you might consider. If they are in project-based units, which is 202's and Section 8 project-based, unless they are on a housing authorities wait list, there is no way that we could provide them a voucher. And they would not meet the regulatory requirements as being a special admission.

It may be that you might want to consider on a test basis or a demonstration basis. If someone's in an assisted property, and they find themselves in a situation that they be allowed at least to get on a housing authority wait list or possibly be considered a special admission, it might be one way to come at it.

Senator STABENOW. Thank you.

Thank you, Chairman Sarbanes.

Chairman SARBANES. Thank you very much, Senator Stabenow.

First of all, I wanted to ask about the inspection of the units that you made reference to, Mr. Gardner. I can understand that the current arrangement creates problems because if you are an owner and you have a unit that is waiting to be moved into because of an inspection, you are losing money.

*Held in Committee files.

It is not quite clear to me why what is in the draft bill, and of course, we have put this out as a discussion draft in an effort to get the benefit of comments and try to improve it. But this is really designed to allow you to continue to rent the unit on a very timely basis, but still provide some assurance that we would get an inspection so we do not find tenants in a unit that doesn't meet safe and decent standards, and if that starts happening, then you have a big "scandal on your hands."

So why doesn't the proposal meet your main concern without then opening us up to the possibility, because you, as I recall, said totally eliminate unit inspection, which would then open us up to the possibility of having some bad units.

Mr. GARDNER. Well, when I said totally eliminate unit inspections, that doesn't mean that the unit will never be inspected.

For instance, on the complexes I have that have both tax credit, Section 8, maybe HOME funds, maybe three or four layers of financing, every one of those agencies wants to inspect the unit and audit the books every year. So it may be that I go through three to five inspections on a 60-unit complex in a year. Plus the inspection issued by the local housing authority. I have a case where I get either inspections from the Oklahoma Housing Finance Agency or the Tulsa Housing Authority, where you have two different authorities that have purview. So to say that it would eliminate inspections altogether, I do not believe that is the case.

Most even conventional complexes have inspections done by their mortgage lenders on a fairly regular basis. Perhaps, and do not get me wrong, I believe that certainly the provisions in here would certainly streamline the process.

If I had some confidence that they would be administered just like I see here—sometimes between here and the real world gets a little confused, as you may know—I read a lot of regulations and I am often baffled that what I am seeing is not what is happening. But I think that the basic premise here is that these units are being looked at, I believe. And if the unit is not being looked at, you are right. It does leave that open for scandal.

However, the difference between the tenant voucher program as it is today and the project-based program as it has been in the past, these vouchers are portable. They can leave. They do not have to live somewhere where it is not habitable. I would have to give the residents some credit for being able to make up their mind that this is not a place they would like to live.

On a project-based subsidy, sure, it was a big problem because they were trapped, more or less, because they were stuck there because the subsidy was with the unit and not with the individual.

The portability of the vouchers allowed them to move, provided there are the units available, which means there has to be bigger participation by the landlords.

So, I would say, yes, I am going to ask for more than I get.

Chairman SARBANES. Does anyone else want to comment on that, any of the other panelists?

Ms. BASGAL. As Mr. Gardner had talked briefly before the hearing had started, I think he is probably in a different rental market than we experience.

For example, most of our owners do not own multiple units. So, we have to inspect the property, the single-family house or the fourplex, where this may be the first voucher that we go in.

These provisions are actually very helpful for us, even though our record is that we inspect usually within 3 days of the owner requesting the inspection. And I think that most housing authorities try to be responsive.

As to the issue of the families can vote with their feet if the unit is not satisfactory, his qualification is most true, which is if you are having a hard time finding a unit, and a family is going to take whoever is willing to rent to them even if the unit doesn't meet the standard that the family might like or their issues.

I believe that there has to be an inspection. I think the provisions that are here in the bill are reasonable. I do think that there is probably some liability questions that we would have to address that somebody sign something that says, the unit is habitable. It is standard and subject to an inspection or something, so we would not take on any liability for the family going under contract before we have actually seen the unit.

Chairman SARBANES. Does anyone else want to add anything?

[No response.]

Okay. Mr. Gardner, the provisions in the draft discussion, you would like in some respects to go further. But they do represent a significant improvement over the current situation, I take it.

Mr. GARDNER. Yes, sir.

Chairman SARBANES. Now, Ms. Basgal, you expressed some concern about the regionalization of the recapture. I am not quite clear what your concerns are.

Ms. BASGAL. Well, the housing authority A, let us say, who has vouchers that are to be reallocated, then they would go to housing authority B. But remember, housing authority A continues to administer the program for the vouchers that they still have. So then you end up, if you have a regional authority, with two housing authorities administering vouchers in the same geographic area.

You could conceivably have two housing authorities in the same building because, depending on where the families go, because the original housing authority continues to administer the rest of their program. We believe that that creates the potential for confusion for landlords because they either have to sit down and get their standards the same.

Chairman SARBANES. Do you recapture the unused allocations?

Ms. BASGAL. Yes, we would recapture.

Chairman SARBANES. Who would recapture them?

Ms. BASGAL. We would recommend that the first step that the housing authority for whom the units are being recaptured have an opportunity to enter into some voluntary arrangement with the housing authority in probably the same jurisdiction, or an adjacent jurisdiction, to administer those.

Because one of the things that is important that is not in this bill, although I think it probably will ultimately end up in there is that there needs to be some preference for the individuals who were originally on the wait list of the housing authority who is losing those vouchers, that those families get some opportunity to have access to those reallocated vouchers.

So if there is this arrangement, at least, between the housing authorities who say, "Okay, you are going to get my vouchers because, for whatever reason, I cannot use them, but we would like for you to give preference to the people on our wait list for those reallocated vouchers," and we would actually go further and say, if those reallocated vouchers go to families who choose to come back into that jurisdiction where they were reallocated from, that they be administered as a portable voucher in the way that they would with any other voucher that goes out. This is complex. It would be better if I had a graph to show you how they move.

Chairman SARBANES. Yes. But then what is the sanction on the housing authority that is failing to utilize its vouchers? This bill gives them certain breaks to try to use them up, but they still fail to do so.

Your approach suggests, there is no blame. There is no falling short of the standard. The assumption in the bill is that there is something of a falling short of the standard and, in effect, you are saying to the housing authority, well, you haven't really been able to do the job, and so you are going to lose these things. And conceivably, that will then create a dynamic that will force them to reform, so that that doesn't happen to them.

Ms. BASGAL. We are still in agreement with that. They should lose them if they cannot use them. No question about it.

Chairman SARBANES. But if you are going to take their people off the list, and as I understand it, if someone comes back into their geographic area, they are going to end up administering it again. Is that right?

Ms. BASGAL. That is what we would recommend as the first alternative.

Chairman SARBANES. What is the sanction, then, on the badly performing housing authority?

Ms. BASGAL. First of all, they do not own the full administrative fee for those units that they would end up administering under the affordability contract.

Second, presumably, if they have management problems and they would probably have difficulty in getting the units back to go under contract, anyway. I mean, there is that aspect of it.

It is the consumer who would be able to say, "I am not going back there with a voucher because either I won't find a landlord willing to rent to me, or whatever." They would be free to go elsewhere. But I think the problem, Senator, is that families who choose to come there without reallocated vouchers, they would be administered as portable vouchers. These vouchers somehow would take on a different nature.

Chairman SARBANES. Does anyone else want to comment on this?

Ms. O'HARA. Yes, I would, thank you.

I think we need to acknowledge the reality that many States, Massachusetts, where I worked, New Jersey, Michigan, Hawaii, and Colorado, just to name five, already have dual administration of the Section 8 voucher program because the State operates a statewide program with regional agencies, along with the local housing authority program.

The system has been successfully dealing with this issue of dual administration for a number of years. I think while the initial tran-

sition from one entity to another needs to be well managed, it is possible and entirely feasible to take vouchers from a housing authority that is not performing after a good period of corrective action and give those to a regional agency for administration because that is happening in a number of States already—not the reallocation, but the fact that there are both regional and local PHA's.

Chairman SARBANES. Anyone else?

[No response.]

Well, I am going to have to draw the hearing to a close because a vote has just begun.

Your statements are very helpful. I would invite you, if you have additional suggestions with respect to the draft, to send them to the Committee because we hope to refine this product.

We think that there are some beneficial and important changes suggested here. And we are hopeful that we will be able to arrive at a consensus, and although this is a difficult time for affordable housing, we hope we can move this Voucher Improvement Act along and at least get the benefit of some of these provisions. Any additional suggestions beyond those that are contained in your statements and your testimony today that you might have, we would really welcome those very much. We appreciate greatly the obvious thought and effort that went into the statements that you have submitted as we try to address this question.

There is a growing body of research that shows that housing assistance is an important element in the success of moving people on welfare into work and self-sufficiency. In fact, there is a study out in Minnesota that having housing assistance made a rather significant impact on the employment rates of people and increased their earnings in a very substantial way. So it really has them across the divide, so to speak.

In some respects, that is a very encouraging finding because it really means that if we can move on the affordable housing issue, it will have a broader repercussion in terms of changing people's lives. And obviously, that is what we are seeking to do.

Thank you all very much.

The hearing is adjourned.

[Whereupon, at 3:50 p.m., the hearing was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR JON S. CORZINE

I would like to thank the Chairman for holding this hearing to discuss needed reforms to the Section 8 housing voucher program.

Today, over 1.5 million low-income households nationwide receive Section 8 housing assistance. The program serves at least 60,000 low-income families in my State of New Jersey. Despite the large number of families the Section 8 program serves, thousands of families remain on waiting lists of up to 3 years for these vouchers because of a lack of funding. Funding, however, is not the only obstacle to improving the success of the Section 8 program.

In fact, securing a Section 8 voucher does not guarantee that a family will actually find housing. Nationally, only 68 percent of families that receive these vouchers are able to find suitable housing. In many areas, particularly in New Jersey, where vacancy rates are very low, there is a severe shortage of Section 8 units. For instance, in Gloucester County, New Jersey, there are 3,300 families on the Section 8 waiting list, but there are only 2,400 Section 8 units in the county. Furthermore, New Jersey has the second highest housing costs in the Nation, which makes it more challenging for families to afford housing even with a voucher.

Mr. Chairman, in addition to reforming the Section 8 program, we need to significantly invest in the production of new low-income housing as outlined under the National Affordable Housing Trust Fund Act. I know that this issue is outside the realm of this hearing, but I do think that increasing production will improve the success of the voucher program.

Mr. Chairman, I want to commend you for putting forth a comprehensive proposal that will no doubt improve the success of the housing voucher program. Allowing Public Housing Authorities (PHA's) to increase their voucher payment standard to 120 percent of the Fair Market Value will help voucher holders who live in high cost areas. This proposal will also expand opportunities for disabled voucher holders who generally have higher housing costs.

Mr. Chairman, I am very pleased that your proposal also authorizes the Welfare to Work vouchers program. Though small, this program has been very successful in helping families transitioning from welfare to work find affordable housing. The Welfare to Work vouchers program has also sparked collaboration between public housing authorities and welfare and workforce agencies and has lead to very important partnerships.

Mr. Chairman, in addition to helping low-income families secure housing, your legislation will also provide public housing authorities with the tools they need to help these families become self-sufficient. Allowing voucher holders to participate in the Family Self-Sufficiency Program, which helps families save for educational activities and homeownership, will help more low-income families attain these goals.

Mr. Chairman, I look forward to working with you to make these goals achievable.

PREPARED STATEMENT OF SENATOR DANIEL K. AKAKA

I wish to thank Chairman Sarbanes and Senator Gramm for holding this oversight hearing today on proposals to improve the Section 8 Housing Choice Voucher program. In addition, I would like to thank our distinguished guests here today for taking the time to share their thoughts on critical housing needs facing low- and moderate-income families.

The Section 8 tenant-based rental assistance program was established in 1974 to provide eligible families with affordable housing through rental subsidies. Economic changes occurring in local housing markets over the last 28 years, however, have resulted in rents increasing, lower vacancy rates, and landlords opting out of the program. These changing circumstances have adversely impacted utilization of the vouchers.

Public Housing Authorities are also facing long waiting lists of qualified applicants seeking to join the program. Without any housing units to accept these vouchers, individuals on waiting lists or receiving vouchers are left without options for housing under the program.

If the program is left unchanged, the housing situation for low- and moderate-income families does not look good. Beginning next year, Public Housing Authorities that do not meet the 95 percent utilization rate for 2 consecutive years will lose unused vouchers. While I believe that we should capitalize on all housing vouchers, it is my understanding that low utilization rates do not adequately reflect the housing demands for low- and moderate-income families. In many localities, Public Housing Authorities are unable to secure housing units because of low fair market rents and landlords who opt out of or refrain from entering the Section 8 program. For

many landlords, the incentives for participating in the program are outweighed by payment delays or low fair market rents.

To alleviate this problem, some States, including the State of Hawaii, have expanded their Rental Assistance Programs. The purpose of the program is no longer solely to provide qualified landlords with rental assistance subsidies which assist eligible tenants to make their payments. Rather, the State of Hawaii has expanded the program to offer interim construction financing for rental projects and to provide qualified landlords with incentives to participate in the Section 8 program. The State of Hawaii has also partnered with nonprofit organizations in privatizing public housing units.

Hawaii is not the only State that is expanding its Section 8 program. Many States are trying to stretch valuable and limited housing resources to provide eligible families with affordable housing.

I am pleased to work with Chairman Sarbanes and this Committee in ensuring that the Section 8 housing voucher program meets these new challenges. I look forward to hearing from our witnesses this afternoon.

Thank you Mr. Chairman.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Thank you, Mr. Chairman. The Section 8 tenant-based housing program is the largest subsidized housing program our Government runs and for many Americans it is critical to ensuring that their most basic housing needs are met. While it will never be the sole solution to our housing problems, it is an essential component of our larger national housing policy and I support efforts to strengthen its reach and effectiveness. I believe a review of the voucher program has a great deal of merit and I look forward to working with my fellow Senators.

In order to make the program more effective we must begin to ask some key questions, such as what accounts for the varying success rates around the country in getting people placed in Section 8 housing? According to HUD, in 2000, success rates varied widely from one public housing authority to the next. Some had rates as low as 37 percent while others were at 100 percent. It is too simplistic to attribute low success rates simply to tight rental markets. It is also clearly an unfair overstatement to blame the problem on mismanagement at some local housing authorities.

I hope that in today's hearing we can delve into the voucher success rate question and get some feedback from our witnesses about ways to improve the success rate numbers. I believe we must also examine ways to tailor the voucher program better to the needs of different communities and different eligible Section 8 participants.

Chairman Sarbanes has suggested a Thrifty Production Voucher to make a certain percentage of units in new construction projects affordable to extremely low-income families. This is an interesting idea aimed at some of the neediest families. And, I look forward to exploring this idea further.

Affordable housing remains a great challenge for our country. As previous hearings have shown, it is not enough to work hard and play by the rules. People are continually being priced out of the rental markets around the country. Improving the Section 8 program will be a positive step forward in alleviating the housing challenge so many working people face.

I hope that we can work together to move legislation forward quickly and I commend the Chairman for his legislative proposal.

Thank you.

PREPARED STATEMENT OF OPHELIA B. BASGAL

EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF ALAMEDA COUNTY
AND DUBLIN, CALIFORNIA

ON BEHALF OF THE

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

APRIL 11, 2002

Good afternoon, my name is Ophelia Basgal. I am the Executive Director of the housing authorities of the County of Alameda and the City of Dublin in California. I am testifying on behalf of the National Association of Housing and Redevelopment Officials (NAHRO). NAHRO is the Nation's oldest and largest organization that rep-

resents the interests of housing and community development agencies seeking adequate and affordable housing and strong communities. Today, we are focused on our local housing agency (LHA's) members that administer approximately 93 percent of the Nation's Section 8 tenant-based housing choice vouchers.

I would like to express my gratitude to Chairman Paul Sarbanes, Ranking Minority Member Phil Gramm, and the other distinguished Members of the Senate Committee on Banking, Housing, and Urban Affairs for inviting me to testify today, on proposals to improve the Section 8 Housing Choice Voucher Program.

The Housing Choice Voucher Program provides housing assistance to over 1.7 million low-income families in privately owned rental units. Over the last 27 years, the program has been effective in providing decent quality units at affordable rents to very low-income families in communities across the country. The mobility aspect of Section 8 assistance (the Section 8 voucher travels with the family as opposed to being tied to a unit) has given low-income families the opportunity to gain access to better jobs, better schools, and safer neighborhoods.

Although the program has been quite successful overall, there are areas of concern. Full utilization of funding and appropriated units is one concern that has moved to the forefront. Currently the average program budget utilization rate stands at a 94 percent and we understand this Committee's concern in finding ways to increase that rate. NAHRO believes that the utilization rate and program effectiveness can be increased through some small and large changes. These changes would all be aimed at serving the maximum number of families possible, providing broad housing choices to low-income families and yielding more economic development opportunities for the participating families.

NAHRO would like to comment specifically on the proposals that are outlined in the Housing Choice Voucher Improvement Act of 2002.

Thrifty Production Vouchers (TPV)

Supports

NAHRO supports the creation of additional affordable housing production tools that encourage local involvement and decisionmaking, which the Thrifty Production Voucher (TPV) proposal would do. While we have yet to see the financial models of the unit operating cost formulas and, therefore, are unable to assess the specific market conditions affecting the program's feasibility, the proposal makes conceptual sense. NAHRO would support a limited demonstration of the TPV proposal, so long as it is voluntary, is carried out with additional funding, and does not divert funds from HUD's existing assisted housing programs.

NAHRO also supports the proposed program's recognition of the importance of decisionmaking at the local level. Community revitalization, for example, may be a desirable goal in some low-income communities. The opportunity to use the TPV funds in qualified census tracts based upon these local determinations of need is a positive option.

Recommendations

(1) NAHRO recommends further review of the tenant-selection process for TPV local housing agencies' owner waiting lists. Presumably, the wait list process would comply with the project-based assistance (PBA) guidelines regarding a separate waiting list for the TPV projects. The initial PBA guidance requires full notification of every applicant on an LHA's existing waiting list, which could number in the thousands. TPV projects are likely to have a small number of units. Notification of the full wait list would be administratively inefficient and costly for LHA's. It would be more logical to notify a smaller number of applicants, reflecting the size of the project. If the project has twenty units, for example, perhaps notification of forty or sixty applicants would be sufficient.

(2) The bill proposes that families who are denied a unit by an owner be entitled to an informal review by the LHA. This could potentially create confusion for both the owner and tenant as to who controls tenant selection, which is a critical property management task. Tenant selection decisions should properly remain under the purview of the owner. The owner should have clearly defined tenant selection criteria, perhaps approved in advance by the LHA. If the tenant believes criteria have been improperly applied, there are other remedies that can be pursued. If the LHA finds a pattern of noncompliance by an owner, it should have the authority to deny the owner participation in the TPV program.

(3) The bill requires that the LHA have an agreement with the agency that will administer the funds for the construction or rehabilitation of the TPV housing that will allow the prospective developer to submit a single application. While the language is intended to ease the application burden for a prospective developer, it is written in a way that could preclude a developer from using a private lender. It is

unlikely that a private lender will want to enter an agreement with the LHA and conform its underwriting application to TPV proposal requirements and vice versa.

Housing Search Assistance and Voucher Success Fund

Supports

Under the current fee structure, LHA's receive no payment for any administrative time devoted to voucher applicants that cannot find housing. While the administrative fee anticipates some of the cost of housing search assistance, a difficult rental market can require the extensive type of counseling and assistance that is necessary to assist extremely low-income families effectively locate and secure private rental housing. This is especially true in low-poverty neighborhoods.

This type of assistance simply cannot be supported with the current fee structure. In the past, voucher administrators were provided special fees to offset initial lease-up costs. Those fees have been eliminated, forcing some LHA's to scale back their outreach and counseling efforts. NAHRO supports the bill's proposal to allow use of unutilized housing assistance funds to assist families in their housing searches.

Recommendations

(1) The LHA eligibility criteria, which states that the agency "serves an area in which a large share of the voucher holders live in a small percentage of census tracts," should be further defined to match specificity given to the success rate criteria, for example 85 percent.

(2) LHA's who used administrative fees in the previous year to support housing-related activities should not be penalized in the determination of funding eligibility. Rather, the bill should make clear that the funds must be used for a maintenance effort and additional services and activities.

(3) NAHRO also recommends authorization for use of a small percentage of annual contribution contract project reserves for housing search assistance for LHA's that have the following characteristics:

- a success rate in excess of 85 percent;
- a unit utilization rate of less than 95 percent and;
- a budget authority utilization rate at or in excess of 100 percent.

Expanding Housing Opportunities

Supports

NAHRO supports the bill's proposal to allow LHA's the discretion to raise their voucher payment standards to 120 percent, without HUD approval, so long as they have been at the 110 percent payment standard for 6 months and provide an initial housing search period of at least 90 days or as a reasonable accommodation for a person with disabilities.

Recommendations

(1) NAHRO recommends that the success rate eligibility criteria be reduced from 85 percent to 75 percent in order to maintain consistency with HUD's current standards for "success rate" payment standards, which currently requires a HUD waiver.

Consolidated Planning

Supports

NAHRO supports the proposed requirement to consult and the comments of agencies or boards administering programs under Title IV of the Social Security Act and the Workforce Investment Act. NAHRO presumes that this is a plan requirement only and not a project-by-project requirement.

Recommendations

(1) The draft bill would require community development agencies to specifically address voucher utilization in the consolidated plan. This would be redundant with a number of current consolidated planning requirements, including consultation with local housing authorities¹ and the housing market analysis,² which requires an assessment of the rental housing market and how that market will influence the use of funds made available for rental assistance. Further, it would mandate that community development departments assess a program over which they have no jurisdiction or control.

¹ 24 CFR Part 91.100(c).

² Cranston-Gonzales National Affordable Housing Act, Section 105(b).

(2) The draft bill's section on consultation with social service agencies is also redundant with current consultation requirement,³ as well as the requirement that agencies specifically look at the housing needs of "families who are participating in an organized program to achieve economic independence and self-sufficiency."⁴ This section basically repeats the citizen participation requirement⁵ that instructs that all public comments be provided along with the agency's response.

Access to Home and LIHTC Developments

Supports

NAHRO supports the bill's language. LHA's will be able to access information on these rental units and use it in their housing search assistance programs. Currently there is no easy place to find this information and housing choice voucher holders miss opportunities to rent in these developments.

Reallocation of Chronically Underutilized Vouchers

Supports

NAHRO supports the reallocation of chronically underutilized vouchers. Long-term underutilization of appropriated units and funding because of market conditions or unsatisfactory program management hurts the communities and families that should be assisted. NAHRO agrees that the reallocation of unused budget authority should occur first within the same metropolitan statistical area (MSA) from which funds were dereserved and then within the State of the agency whose voucher allocation has been reduced.

Recommendations

Before making recommendations on the proposals it would be useful to consider why LHA's have specified jurisdictions and how regionalizing the administration of the reallocated units will possibly impact the Section 8 program. Almost all the State-enabling public housing authority legislation was created before there were any rental assistance programs. The initial focus was on construction and operation of actual units, which were place-based. Consequently, the LHA's area of operation was usually defined as the boundaries of the jurisdiction that established it.

HUD has historically assumed that jurisdictional limitations apply to Section 8 program administration as well. To start a Section 8 program in a community, an LHA must establish, to HUD's satisfaction, its operational area based on the State-enabling legislation and a legal opinion as to that fact. The very existence of portability in the Section 8 program further underscores HUD's acceptance of jurisdictional limits. It should also be noted that elected officials of the jurisdiction that created the agency often appoint boards governing LHA's. In some cases the elected officials themselves serve as the governing body.

For metropolitan areas, this bill proposes that a regional administrator will be appointed for the entire MSA where vouchers will be reallocated. In nonmetropolitan areas, a State agency or public housing agency or other entity that serves a "large" nonmetropolitan areas will be appointed to serve the same area where the vouchers will be reallocated. While the Quality Housing and Work Responsibility Act of 1998 (QHWRA) certainly gives HUD the authority to preempt local administration in instances of nonperformance and appoint a new administrator, the question certainly arises whether this is the best way to handle the problem of chronically underutilized vouchers. In addition, the legislative proposal before us preempts the local administration only for the reallocated vouchers. The original LHA with the underutilized vouchers will continue to be the prime administrator of the units in that jurisdiction.

Imagine the confusion among landlords and tenants who could be dealing with two different administrators providing Section 8 assistance in the same building. These two administrators could easily have established different voucher payment standards, arrive at different "reasonable rents," use different utility allowances, etc. This kind of variance cannot possibly help the families or encourage landlord participation.

Furthermore, if a citizen wants to complain about a Section 8 problem unit that is administered by the regional administrator, instead of going to the board that is appointed or elected by residents of his/her jurisdiction, he/she would go to a board appointed or elected in another community. That situation would hardly seem to engender community support for the program. It should also be noted that past sur-

³ Cranston-Gonzales National Affordable Housing Act, Section 105(e).

⁴ Cranston-Gonzales National Affordable Housing Act, Section 105(b)(1).

⁵ Cranston-Gonzales National Affordable Housing Act, Section 105(c).

veys of Section 8 owners show that they tend to be small local landlords who reside in the community where they own units. These owners may prefer working with a local agency that understands the local rental market and is also locally accountable for its decisions, rather than a regional entity that is removed from the community.

Therefore, NAHRO recommends a focus on solutions to chronic underutilization, while giving due consideration to the administrative complexities and community support issues that are involved.

Recommendations

(1) LHA's should be allowed to first, arrive at voluntary reallocation arrangements with other LHA's or alternate administrators in surrounding jurisdictions within the MSA. A minimum level of performance standards should be required for any alternate administrators. It is expected that a preference for applicants on the original LHA's waiting list the reallocated vouchers will be a product of such a voluntary agreement. In addition, the governing bodies of the two jurisdictions can reach agreement on administrative arrangements that will ensure that the vouchers are used in a way that is mutually acceptable to both communities.

(2) If the LHA is unable to reach a voluntary arrangement with another LHA or alternate administrator, then HUD should appoint an administrator for those particular vouchers only. They can be used in the alternate LHA's jurisdiction and the original LHA's jurisdiction unless the families choose to exercise portability under the existing portability regulations.

(3) The proposed legislation requires appointment of a regional administrator for vouchers for an entire MSA. This means that the regional administrator would operate not only in the jurisdiction of the LHA with the reallocated vouchers but could also operate in the jurisdiction of any LHA in the MSA regardless of their performance. In short, this proposal would preempt jurisdictional boundaries of LHA's that have no performance problems. If this is permitted, which it should not be, it would require extensive coordination among all the LHA's to address the types of operational differences mentioned briefly above.

(4) In addition, the proposal requires that the designated regional administrator receive all the vouchers in the region. For MSA's that cover large geographic areas, it is quite possible that no single entity will want to administer all the reallocated vouchers. Given the potential geographic distances, the coordination that will be required and the additional administrative requirements, that is preferences for families in the original jurisdiction, etc., it may not be administratively cost-effective. Therefore, LHA's interested in applying for the reallocated vouchers should be allowed to apply for as few or as many reallocated vouchers as they are interested in administering. In addition, QHWRA allows for consortia of LHA's and they should also be allowed to apply for the reallocated vouchers.

(5) As to the selection criteria proposed for administrators of reallocated vouchers, the criteria should follow those used in the "fair share" NOFA process without the need determination since this was already addressed in the original allocation to the MSA. There is nothing special about these reallocated vouchers that requires a different selection criteria.

(6) Finally, any reallocation system should provide some mechanism to "return" the vouchers to the original community if and when they are able to demonstrate the market conditions or administrative capability that will result in full utilization.

Self-Sufficiency

Supports

NAHRO supports expanding authorization of existing self-sufficiency housing programs to other forms of assisted housing, including privately owned project-based assisted families. NAHRO also supports the proposal to allow use of Resident Opportunities and Self-Sufficiency (ROSS) funds to serve Section 8 families and disregards of payments made for purpose of offsetting increases in rents resulting from increases in family earned income.

Recommendations

(1) More than twice as many families with children live in Section 8-assisted housing than public housing. NAHRO recommends that the ROSS appropriation be increased so that services to public housing families are not reduced because of services provided to Section 8 families.

(2) NAHRO also recommends that funds for the authorized income disregards for Section 8 participants be appropriated.

Section 8 Inspections

Supports

NAHRO supports all of the proposed improvements to the Section 8 inspection requirements.

Recommendations

NAHRO recommends discontinuing the 100 percent rent abatement requirement in cases where a HQS violation exists that does not effect the entire unit. NAHRO believes that LHA's should have the discretion to abate partial payment since the unit is livable aside from the HQS deficiency. This is a simple measure that could help agencies encourage landlord retention by eliminating inflexible bureaucratic requirements that do not end up achieving the intended objective.

PREPARED STATEMENT OF SCOTT GARDNER

PRESIDENT, NATIONAL APARTMENT ASSOCIATION AND CROSSHAVEN PROPERTIES, INC.

APRIL 11, 2002

Chairman Sarbanes, Senator Gramm, and distinguished Members of the Banking, Housing, and Urban Affairs Committee, my name is Scott Gardner. I am President of Crosshaven Properties, a privately operated apartment company headquartered in Tulsa, Oklahoma. I am also President of the National Apartment Association (NAA), a trade group representing over 30,000 apartment executives and professionals. NAA operates a Joint Legislative Program with the National Multi-Housing Council, a trade association representing the Nation's larger and most prominent apartment firms. It is my pleasure today to testify on behalf of both organizations. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, professional management, and finance. Together, the NMHC/NAA members own and manage over five million apartment homes nationwide.

NMHC and NAA commend the Members of the Committee for your valuable work addressing the important issue of affordable housing in America. We, too, believe it is critical to meet the housing needs of low- and moderate-income families. And we believe the Section 8 Housing Choice Voucher Program can be one of the most effective means of doing so; however, the program's potential has been limited and its utilization should be greater. We believe that the chief reason for this is that the program's structure and administration discourage private owner participation and make it difficult for voucher holders to compete with unsubsidized residents for vacant apartments. For Section 8 to realize its purpose, the program must be improved to be more "transparent," which would then result in greater apartment owner participation.

Mr. Chairman, we appreciate your leadership on this issue and we support many provisions of the proposed Housing Voucher Improvement Act, particularly the ones aimed at improving the unit inspection process. We wholeheartedly thank you for addressing those issues. However, even with this important reform, the proposed legislation falls short of fully incorporating reforms necessary to generate broader market support for the Section 8 program.

The best way to increase voucher utilization rates is to address the problems that have traditionally caused private property owners to either not participate or to withdraw from the program. My statement today will focus on four key proposals that we believe would improve the program and increase owner participation and voucher utilization: (1) Improving the Housing Quality Standards Unit Inspection Process; (2) Improving the Subsidy Payment System; (3) Increasing the Payment Standard; and (4) Amending the Lease Addendum.

Improving the Housing Quality Standards Unit Inspection Process

Currently, before an apartment is eligible to lease to a Section 8 voucher holder, the administering public housing authority (PHA) must inspect that unit for compliance with HUD-prescribed housing quality standards (HQS) prior to lease and then annually thereafter. PHA's handling 1,250 or fewer units must complete the initial unit inspection within 15 days of a tenancy approval request. Those with more than 1,250 units must conduct the initial inspection within 15 days or within a "reasonable" time after the request. Apartment owners agree that voucher holders should reside in safe, sanitary environments, but we believe that this can be achieved without conducting individual unit inspections.

Unit-by-unit inspections delay resident occupancy even if the PHA conducts its inspection within the required timeframe. Further, because of the limited resources available to PHA's for inspections, and the difficult logistics that accompany inspections, they are infrequently conducted in a timely manner. Some apartment owners report delays of 30 days or longer. Given that the professional apartment industry relies on seamless turnover to meet its overhead costs, the financial implications of such delays to owners are significant.

Not only do unit-by-unit inspections cause intolerable delays in leasing units, they do not satisfy HUD's objective of protecting residents and assuring owner compliance with the agency's health and safety criteria. They do not accurately assess the property's regular property management practices or HQS compliance. They only reveal the status of a unit at a particular moment in time.

NMHC/NAA applaud the intent of Section 9 of the proposed legislation that would speed up the move-in process by allowing individual unit inspections to take place within 30 days after the resident moves in and payment commences. This Section would also allow PHA's to conduct building-wide, rather than unit-by-unit, inspections in certain cases. It would reward professionally managed properties that participate in the program and allow PHA's to focus their scarce resources elsewhere.

Although we strongly support Section 9's proposed intent, we advocate the total elimination of individual unit inspections. Instead, we would encourage PHA's to rely on property-level inspection reports previously conducted for the HUD/Federal Housing Administration (FHA) or on routine lender inspections. These alternative inspections include a review of the property's maintenance procedures and maintenance history. More importantly, relying on these alternatives would eliminate the current duplication of effort by the PHA's and HUD/FHA, and would reduce occupancy delays caused by untimely unit inspections.

Improving the Subsidy Payment System

Another aspect of program administration that would improve private owner participation is improving the Subsidy Payment System. PHA's are required to make prompt, direct subsidy payments to apartment owners. Unfortunately, subsidy payments are often not timely, which discourages owners from participating. Yes, HUD's regulations allow PHA's to be sanctioned for untimely payments, but these sanctions are nominal because they must be paid from a PHA's limited administrative fees. As a result, they do not serve as an incentive for prompt payment.

NMHC/NAA believe more apartment owners would participate in the Section 8 program if the costs of renting to voucher residents were more comparable to the costs of serving unsubsidized residents. Therefore, it is essential to overhaul Section 8's costly payment structure. Just as owners would not regularly accept late rental payments from market-rate residents, they should not be forced to accept late subsidy payments.

One way to achieve the goal of transparency between subsidized residents and market-rate residents would be to require that *all* PHA's make automated electronic fund transfers, thereby assuring timely subsidy payments. While some PHA's already use automated funds transfer systems, making this uniform among all PHA's would substantially reduce costs for both owners and PHA's.

Increasing the Payment Standard

The current payment standard to owners typically ranges between 90 and 110 percent of an area's fair market rent (FMR). Both the payment standard generally, and FMR levels specifically, are far too low to support owner participation. FMR's, set annually for each metropolitan area, must be high enough to encourage owner participation and, in turn, create a sufficient supply of apartments.

The shortage of affordable housing is a true example of market supply and demand at work. Private owners must receive sufficient rents to cover the costs of developing and operating an apartment property or the property will not be built. If the FMR's are too low, the owners will not be able to rent to subsidized residents because they will not generate enough income to operate and maintain the property.

The current FMR level is the 40th percentile rent, or the dollar amount below which 40 percent of the standard-quality rental housing units are rented. Establishing the FMR at the 40th percentile is a primary reason many apartment owners do not participate in the voucher program. These rents are simply too low to support the property's operations. NMHC/NAA recommend that the FMR be based on at least the 50th percentile.

We further recommend that the payment standard be raised to 120 percent of FMR in high-cost areas, and that PHA's be given the flexibility to raise the level to 150 percent in areas where the voucher utilization rate is less than 80 percent

and the market occupancy rate is greater than 95 percent. It should be noted that in high-cost areas, even that increase would still be *well below* market rents.

We appreciate that the proposed legislation recognizes the importance of this issue. In Section 5, the proposal would allow payment to be increased to 120 percent of the FMR where it had been set at 110 percent or higher for the previous year and voucher utilization rates were less than 95 percent for the 12 months prior to establishing the new standard. As previously stated, NMHC/NAA propose a higher increase, and we advocate that such increases be authorized where voucher utilization rates were less than 80 percent for the previous 6 months, not the proposed 12 months. We strongly believe that 6 months is an adequate period after which to determine the need for a higher utilization rate, and 12 months will only serve to further delay expanded owner participation in the program.

Amending the Lease Addendum

The proposed bill does not address this issue. HUD requires every lease to a Section 8 voucher holder include its standard addendum. The addendum itself requires that the lease include, word-for-word, all of the addendum's provisions. If there is a conflict between the addendum and another lease provision, the addendum pre-empts the lease.

The addendum contains numerous provisions that may override local practice and even landlord-tenant (NMHC/NAA prefer "owner-resident") laws, putting owners in a very untenable situation. Differences between Section 8 and market leases also require owners to specially train their staffs to administer Section 8 leases. This is particularly difficult in an industry where employee turnover averages 50 percent.

In short, HUD's lease addendum is many times incompatible with State and local landlord-tenant laws and disregards industrywide model lease language developed by NAA. This inconsistency creates confusion among apartment owners and causes difficulties for owners who must comply with one set of lease requirements for voucher residents and another for nonvoucher residents residing within the same property. Apartment owners have told us time and time again that the lease addendum creates obstacles that discourage their participation in the program.

We propose the elimination or modification of the lease addendum to reflect standards used with market leases, thereby reducing administrative burdens and other costly procedures. Alternatively, NMHC/NAA propose establishing pilot programs to test alternative, less conflicting and burdensome lease addendums or the NAA model lease.

NMHC/NAA support the addendum's intended purpose, which is to ensure the safety of Section 8 residents. However, residents are already protected by existing local laws. The addendum does not add anything to these protections, it only adds costly burdens to the owners, which, in turn, discourages their participation in the program.

In summary, NMHC/NAA support the Section 8 program and wish to engage more fully in it. However, such participation is not economically feasible without reforming the program to reduce the significant costs and burdens it imposes on apartment owners. I thank you for the opportunity to testify on behalf of the National Apartment Association and the National Multi-Housing Council, and wish to offer our assistance as the Committee continues with its important work toward creating a more effective and efficient program. Thank you.

PREPARED STATEMENT OF ANN O'HARA

ASSOCIATE DIRECTOR, TECHNICAL ASSISTANCE COLLABORATIVE

ON BEHALF OF THE

NATIONAL LOW INCOME HOUSING COALITION

APRIL 11, 2002

Chairman Sarbanes and Members of the Committee, I am very honored to be asked to testify today on proposals to improve the voucher program. I appreciate the chance to join the other witnesses on this panel to discuss a subject that is very important to our Nation's housing policy.

My name is Ann O'Hara and I am the Associate Director of the Technical Assistance Collaborative (TAC), a national organization that provides information, capacity building, and technical expertise to organizations and policymakers in the areas of mental health, substance abuse, human services, and affordable housing. I have experience with the development and administration of rental assistance programs

at the local, State, and national levels. Prior to joining TAC, I directed Massachusetts's rental assistance program.

I am here on behalf of the National Low Income Housing Coalition, representing its members nationwide who share the goal of ending the affordable housing crisis. My fellow members of the Coalition include nonprofit housing providers, homeless service providers, fair housing organizations, State and local housing coalitions, public housing agencies, housing researchers, private property owners and developers, State and local government agencies, faith-based organizations, residents of public and assisted housing, and other people concerned about low-income housing.

Housing Need and the Role of Vouchers

As the Committee is aware, housing affordability and availability are serious problems. According to HUD, 3.8 million unassisted, extremely low-income families faced worst-case housing needs in 1999.¹ These families, with incomes of less than 30 percent of area median income (AMI), spend more than half of their income on rent or lived in substandard housing. These families are forced to pay too much or live in poor quality housing because there are two million fewer affordable units than there are extremely low-income families, while a substantial proportion of the units that are affordable to extremely low-income people are occupied by families in higher income ranges.² As tenant-based subsidies that provide assistance in the payment of rent for units already in the market that would otherwise be unaffordable, vouchers are vital in addressing these affordability and availability problems.

Currently, 1.5 million low-income families are served by vouchers.³ Choice and mobility are important attributes of vouchers, as tenants can choose where to use their vouchers, and can take the vouchers with them if they move. Such mobility gives families with vouchers the opportunity to move to neighborhoods where poverty is less concentrated and where they may find improved economic and education opportunities for themselves and their children.

But if families with vouchers are finding it overly difficult to use their vouchers, then the full benefits of the voucher program are not being realized. A study recently released by HUD found that the national success rate for vouchers was 69 percent in 2000 for large metropolitan public housing agencies (PHA's). This means that 31 percent of all families issued vouchers were not able to use those vouchers. Since 1993, there has been a marked decline in voucher holders' success in large metropolitan PHA's, as the 1993 success rate was 81 percent.⁴ Given the length of time a family receiving a voucher may have waited on the PHA's waiting list for that voucher,⁵ this substantial problem with success turns cruel in the life of an individual family hoping for a real housing opportunity.

Increasing Voucher Success

If the voucher program is to make good on its promise of a mobile and flexible subsidy to help poor families pay for housing, then the success rate of those families in using the vouchers issued to them needs to increase. The National Low Income Housing Coalition believes that the policy changes in the proposed Housing Voucher Improvement Act of 2002 would allow more families to find success with their vouchers.

One way to improve voucher success is to allow PHA's with voucher success problems to use resources they already have, if available, or provide them with additional resources to aid voucher holders in their search for housing. The recent HUD study on voucher success found that PHA's can intervene in ways that increase success, such as providing one-on-one briefings to voucher holders on the search process

¹U.S. Department of Housing and Urban Development, *A Report on Worst Case Housing Needs in 1999: New Opportunities Amid Continuing Challenges* (2001), available at <http://www.huduser.org/publications/affhsg/wc99.html>.

²Cushing N. Dolbeare, *Low Income Housing Profile* (2001), available at <http://www.nlihc.org/pubs/index.htm#profile>.

³Meryl Finkel and Larry Burton (Abt Associates, Inc.), U.S. Department of Housing and Urban Development, *Study of Section 8 Voucher Success Rates: Volume I, Quantitative Study of Success Rates in Metropolitan Areas* (2001), available at <http://huduser.org/publications/pubasst/sec8success.html>.

⁴*Id.*

⁵According to a summary of a 1999 HUD report, *Waiting in Vain: An Update on America's Rental Housing Crisis*, waiting lists were as long as 10 years in Los Angeles and Newark, 8 years in New York City, 6 years in Oakland, and 5 years in Washington, DC, Cleveland, and Chicago. U.S. Department of Housing and Urban Development, *Waiting Lists Grow While Affordable Housing Shrinks*, Recent Research Reports, May 1999, available at http://huduser.org/periodicals/rrr/rrr5_99art1.html.

and reaching out to prospective landlords.⁶ We are pleased that the Housing Voucher Improvement Act of 2002 proposes two useful ways to make funds available for search assistance activities.

First, the bill would allow the use of unutilized Section 8 funds to assist families in finding housing. A PHA with voucher success rates of 85 percent or lower or with a concentration of voucher holders in certain areas (leading to a presumption that voucher holders are having difficulty using their vouchers throughout the PHA's jurisdiction) would be able to use funds that it does not anticipate using for rental subsidies for a variety of activities to help families secure housing. The PHA could not use more than 2 percent of its funds for this purpose. Alternatively, for PHA's that have utilized a high percentage of their budget authority but still have voucher success rates of 85 percent or less or have geographic concentration of voucher holders, the bill would establish a voucher success fund, subject to appropriations.

In the case of both initiatives, the eligible activities include housing and mobility counseling, assistance in paying a security deposit and credit check and application fees, and landlord outreach and education. The PHA would need to show progress in the overall utilization of its voucher funds, increased voucher success or decreased geographical concentration of voucher holders to continue to use or receive funds in subsequent years, until its utilization, success, or deconcentration levels improve to the point that the PHA is no longer eligible. A PHA participating in either of these programs would also need to include information in the PHA's plan about the efforts being taken to increase voucher utilization and success and how the PHA plans to use the funds available.

Another policy change that would be authorized by the Housing Voucher Improvement Act relates to the inspection of units. Units rented by voucher holders must meet the Federal Housing Quality Standard, but voucher holders may lose the chance to rent units while waiting for the PHA's inspection to give the green light for the unit. While it is important that Federal resources are spent on housing that meets a standard of habitability, the requirements regarding the timing of that inspection can be changed to make sure that a housing opportunity is not lost to the voucher holder. The bill would allow a building owner to begin receiving payment for the unit prior to an inspection if the PHA has inspected the building and a reasonable number of units without finding major problems within the prior 6 months. The PHA then must inspect the unit within 30 days and the owner must have already agreed to make repairs within 30 days after the inspection.

Increased Payment Standards

NLIHC has also advocated for PHA's to have more flexibility in increasing the payment standard for vouchers. HUD's 2000 study determined that 39 percent of voucher holders were unsuccessful in tight rental markets and that successful voucher holders needed 93 days on average to find a unit in tight markets.⁷ If rents tend to be higher in tighter markets, then PHA's would need greater flexibility to increase what they pay—the payment standard—to make vouchers work. Currently, PHA's can increase their payment standard to 110 percent of the HUD-determined fair market rent (FMR) without HUD's approval.

The bill would allow PHA's to increase payment standards up to 120 percent of FMR, subject to certain conditions. The payment standard must have been at 110 percent or above for the prior year, and the PHA's voucher success rate is 80 percent, or a significant number of voucher holders have been given at least 90 days to search for a unit, or vouchers have been concentrated in high poverty neighborhoods. All of these conditions would indicate that voucher holders have had trouble taking advantage of their vouchers. The National Low-Income Housing Coalition recommends, however, that the voucher success rate criterion for increasing the payment standard to 120 percent of FMR should be 85 percent or below (rather than 80 percent). This would provide consistency with the success rate of 85 percent that serves as the threshold for taking advantage of the Voucher Success Fund and using unutilized funds to improve voucher utilization, success, and deconcentration elsewhere in the bill.

The bill would also give PHA's the authority to increase the payment standard for properties in lower poverty areas that were developed with Federal resources through the Low-Income Housing Tax Credit or the HOME Program. It makes no sense that properties developed with Federal resources with the goal of providing low-income housing should be inaccessible to people holding a Federal rent subsidy intended to give them mobility and choices; the bill would correct this predicament.

⁶Finkel and Burton.

⁷*Id.*

My own work has made me acutely aware of the additional challenges faced by people with disabilities. Accessible units tend to be located in newer properties, which are in better condition and more expensive to rent. As a result, some people with disabilities may find it more difficult than other voucher holders to successfully use their vouchers if the payment standard is insufficient. The bill would allow PHA's to set the payment standard at up to 120 percent of FMR without HUD approval as a reasonable accommodation to people with disabilities. This new authority would restore a policy in effect before the prior Section 8 certificate and voucher programs merged to become the Housing Choice Voucher Program.

The need for improvements in the voucher program is illustrated by the experience of Matthew, a young man in his late 20's who was injured in a swimming accident and is now a quadriplegic. Matthew moved to Florida to obtain treatment from the Spinal Cord Injury Center in Miami. After obtaining a voucher from the Section 8 Mainstream Program for people with disabilities, Matthew was unable to locate an accessible unit. Finally, with the help of disability advocates, Matthew obtained a list of tax credit properties from the State allocating agency and was able to find a vacant unit built in the 1980's with some—but not all—of the accessible features he needed. The owner initially refused to accept the Section 8 voucher, and once again, disability advocates were required to intervene to inform the owner of his obligations under the tax credit rules.

Matthew's problems were still not over, however. The PHA that had issued the voucher initially declined to grant a rent exception, which was needed because the tax credit rent exceeded the PHA's Section 8 payment standard. Fortunately, disability advocates again intervened—this time with the PHA—and an exception rent was finally granted. Just one example shows how several provisions in the bill would have made Matthew's search for a place to live with his voucher less onerous.

Improving Planning and Information About Housing Opportunities

Local policymakers are required to evaluate and plan for their housing needs and involve tenants and concerned community members in the planning process. Vouchers are an important housing resource and should be part of this planning. We are pleased that the bill would require PHA's using funds to improve voucher success report on voucher issues in their PHA's plans. Under the bill, communities' consolidated plans also would need to describe the barriers to better voucher utilization and strategies for overcoming those barriers. The proximity between a community's job opportunities and housing opportunities for people receiving welfare assistance would be included in the plan. The community's development of its housing strategies would require consultation between welfare and housing agencies.

The recent HUD study verified that voucher holders are more successful in areas where discrimination is illegal.⁸ While a few jurisdictions around the country have prohibited landlords from discriminating against voucher holders as prospective tenants, that is the exception rather than the rule, so other tools are necessary to assist tenants in effectively using their vouchers. Owners of properties developed with funds from the Low-Income Housing Tax Credit or HOME, regardless of location, are not allowed to discriminate against tenants because their source of income. But what good is this policy if voucher holders do not know where these properties are located? The bill would require the HUD Secretary to provide PHA's with an updated list of these properties in the area on an ongoing basis. The PHA's, in turn, have to provide the list to families receiving a voucher from the PHA.

Reallocation of Vouchers

While there are a variety of factors affecting voucher utilization, the end result of low voucher utilization is the same: fewer families are assisted than could be, given the resources available. In an effort to address this situation, HUD issued a notice in the *Federal Register* in November 2001 that it would take unutilized vouchers from areas where utilization is low and permit reallocation to other areas.⁹ Were HUD certain that low utilization only reflected a lack of need, then this policy would make sense. But in many cases, low utilization means that markets are tight, PHA's are having difficulties, and low-income people need more help, not less.

Under the Housing Voucher Improvement Act, PHA's having low utilization are at risk of losing their unutilized vouchers, but reallocation would favor agencies that would serve the same geographic areas as the original PHA. If a PHA fails to utilize

⁸*Id.*

⁹Housing Choice Voucher Program: Notice of Funding Availability for Reallocated Baseline Units and Annual Budget Authority and for Reallocated Baseline Welfare to Work Units and Annual Budget Authority, 66 *Fed. Reg.* 55,524 (November 1, 2001), available at http://hudclips.org/sub_nonhud/cgi/pdf/27415.pdf.

90 percent of its tenant-based subsidies or budget authority during the fiscal year, the PHA would receive a notice to that effect. If, after another 16 months, the PHA has not yet achieved 95 percent utilization of vouchers or budget authority, the PHA's unutilized vouchers can be reallocated. The HUD Secretary would reallocate the vouchers to a regional administrator, with a preference for an agency that already has the authority to serve the area that had been served by the PHA whose voucher allocation is being reduced. Should the Secretary determine that the primary cause of underutilization is a lack of eligible families in the geographic area, the Secretary can establish a process for reallocating vouchers outside the geographic area, but with priority for reallocation given to a regional administrator or public housing agency in the same State.

Given the other tools that would be provided by the legislation to improve voucher utilization and success rates, it seems reasonable to reallocate vouchers when a PHA is unable or unwilling to make improvements after receiving notice of a problem, since vouchers not utilized means families not served. The National Low Income Housing Coalition supports the balanced approach suggested by this legislation, but recommends a broader public notice when PHA's are first alerted to its inadequate utilization rate under the legislation. It would be valuable for tenant organizations and other concerned members of the community to know when their PHA's have been put on notice, so that they can try to work with the PHA's to improve utilization, rather than having the vouchers moved to a possibly unknown agency abruptly. Community members and tenant organizations may have developed relationships with officials at the local PHA's and prefer the opportunity help the existing PHA's improve utilization.

Helping Tenants Achieve Greater Economic Well-Being

Debate about the reauthorization of the 1996 welfare law is now in full swing. The housing circumstances of current and former recipients of Temporary Assistance to Needy Families can affect those families ability to make a successful transition off welfare. Inadequate, unstable housing makes it hard to achieve stable work for parents and stable schooling for children.¹⁰

The eligibility for programs that provide services to HUD tenants with the goal of improving their economic well-being could be expanded. HUD's Family Self-Sufficiency (FSS) program provides subsidized savings and case management for public housing and voucher tenants seeking better employment opportunities, while the Resident Opportunities and Self-Sufficiency (ROSS) program is a funding competition that provides grants to PHA's, tribal authorities, and tenant groups for projects that would help tenants improve their economic situation. The bill would permit voucher holders to participate in the ROSS program. Currently, the program is limited to public housing tenants.

Under FSS, tenants participate in case management with the goal of achieving better employment. As the participants' earnings rise, PHA's take the value of the reduction in the PHAs' portion of the tenants' rent—which is reduced because the tenants can cover more of the rent themselves—and put it into escrow accounts for the tenants. The funds in the accounts are available after 5 years to participants who successfully complete the program. But all PHA's are limited by law to one full-time service coordinator for the FSS program, regardless of the size of the program; the Housing Voucher Improvement Act would allow for the more than one coordinator, if the funds were available.

Project-based Section 8 tenants, who live in privately owned, publicly subsidized properties, cannot participate in the FSS program currently. The Housing Voucher Improvement Act would extend the reach of this program to project-based tenants. The program could be administered by the owners of the project-based property, if they choose, or interested project-based tenants whose landlords do not set up the FSS program at the building could participate in the local PHAs' programs.

In general, assisted tenants may not experience the benefits of increased earnings or other new resources because, as long as they remain eligible for assisted housing, they pay 30 percent of their income in rent. But some public housing, voucher and project-based tenants are authorized to receive a disregard of increased earnings, if that family participated in a self-sufficiency program, or if an unemployed member of the household finds a job, or if the family receives or has received TANF in the prior 6 months. Unfortunately, there has not been sufficient funding appropriated to support the earned income disregard for voucher holders or project-based tenants, which is not an issue for this Committee but rather for the appropriators. This Committee can, however, authorize a disregard of any employment incentives that a

¹⁰ See Barbara Sard, *A Housing Perspective on TANF Reauthorization and Support for Working Families* (2002), available at <http://www.cbpp.org/3-12-02hous.htm>.

family receives from another source—such as a State, other public entity, or private entity—specifically to offset an increase in rent. The bill includes such an authorization, which also applies when the incentives are paid to a parent or spouse who has more recently joined the family in assisted housing, to avoid discouraging the reunification of a family on financial grounds. The bill provides that if a PHA or owner of assisted housing receives funds from a State or local agency to provide employment incentives to tenants, those funds should not count as revenue for the PHA or owner.

The flexibility and mobility provided by vouchers ideally allow voucher holders to live near jobs or transportation to jobs. Vouchers can provide a particularly valuable support to current or former recipients of TANF as they move from welfare to work. The Housing Voucher Improvement Act would authorize “Welfare to Work” vouchers. These vouchers would be available to PHA’s through competition and would be limited to PHA’s that operate FSS programs. The PHA’s would issue the vouchers to families who receive TANF or had received TANF in the prior 2 years and who need the voucher to find a place to live closer to jobs or transportation, to keep an existing job or increase hours, or to participate in a program to overcome barriers to work.

Thrifty Production Vouchers: An Important Experiment

Housing policy would not improve if new ideas were never tested. The Thrifty Production Vouchers (TPV’s) that would be authorized by the Housing Voucher Improvement Act present an opportunity to learn whether we can subsidize more units with fewer resources if the right incentives are built into the program. The TPV’s would provide an operating subsidy to support units for extremely low-income tenants, where those units have received full capital funding. With some exceptions, the units subsidized by TPV’s would constitute only one-quarter of a project’s total units. Rents for the TPV units would be based on operating costs. The mix of subsidized and unsubsidized tenants at the property would help keep overall operating costs down, and consequently, TPV rents down.

The TPV projects could have a site-based waiting list or a waiting list with the PHA. The building owner would enter into a contract of up to 15 years, with extensions required at least until the 40th year (subject to appropriations). The TPV tenants would have the same mobility as tenants in units with regular vouchers that have been project-based.

Though we have some concerns around the waiting list procedures, the National Low Income Housing Coalition supports TPV’s. We also urge the extension of the TPV policy permitting an owner list—as an alternative to a list with the PHA—to properties where regular vouchers are project-based by the PHA under the project-based voucher legislation passed in 2000. This would improve the access of homeless people and people with special needs to housing opportunities, because they may find it daunting to navigate the PHA’s waiting list. Currently, lists for regular project-based vouchers are kept only by the PHA.

An issue remains about notice, regardless of whether waiting lists are kept by the owner or the PHA. Under the Housing Voucher Improvement Act, when new TPV units become available and a waiting list is established, whether there is an owner list or a PHA list, the PHA provides notice to tenants of the opening of the list similar to the opening of the waiting list for tenant-based assistance and notifies extremely low-income families that are newly applying for assistance. The PHA will monitor that an owner maintaining a site-based list gives preference to families on the PHA’s tenant-based list and cooperates otherwise.

But the National Low Income Housing Coalition has some concerns that the method for managing waiting lists for TPV’s may fail to alert adequately eligible people on the existing tenant-based list of a new opportunity. At the same time, a requirement to alert the entire existing list—that may, in some cases, include thousands of prospective voucher tenants—about the availability of only a few new TPV units could be a waste of resources. We hope that a compromise might be developed as the bill moves forward that would make TPV units better known and available to people on the PHA’s existing waiting list, without undue burden on the PHA.

Enhanced Vouchers

The National Low Income Housing Coalition has had an ongoing concern about the displacement of tenants as the result of the termination of project-based housing assistance, either through the prepayment of a HUD-subsidized mortgage or an opt-out from a Section 8 contract, or both. Tenants whose buildings undergo such a conversion are entitled to “enhanced” vouchers, with a payment standard that will cover a new and higher rent at the property following the conversion, subject to a rent reasonableness evaluation by the PHA.

The point of providing enhanced vouchers is to prevent displacement, but not all property owners appreciate that tenants have the right to remain in their units following the conversion. PHA's can also cause displacement when they insist on rescreening enhanced voucher tenants for eligibility for tenant-based assistance, even though the tenants were presumably suitably eligible for assistance as project-based tenants and the opportunity for rescreening is available only because of the conversion. This rescreening should not be permitted.

In addition, enhanced voucher tenants—often elderly—may find themselves “overhoused” at the point of conversion, in a unit that was once the right size but is no longer because family members have moved away or died. If there is no appropriately sized unit in the property, an overhoused tenant must make a good-faith effort to find a unit elsewhere. A tenant who cannot find a unit elsewhere may stay in the existing unit for a year and pay rent as if on an appropriately sized unit. But after a year, the tenant's portion of the rent will increase to reflect the larger unit and the tenant may need to move from the property and will receive a voucher at the PHA's regular payment standard, rather than an enhanced voucher. Overhoused tenants should not be forced to move until an appropriately sized unit becomes available at the property, especially as these tenants are likely to be older and more frail.

As the bill moves forward, we hope that the Committee will consider improving upon the enhanced voucher protections for assisted tenants facing a conversion action. Enhanced vouchers are meant to prevent displacement, not provide an opportunity for displacement simply because the administration of the subsidy shifts from project-based administration by the property owner and the local HUD office or contract administrator to tenant-based administration by the local PHA. The shortcomings of the notice issued by HUD late last year on its enhanced voucher policies make it clear that legislation is necessary.¹¹

The Importance of Voucher Improvements

The Housing Voucher Improvement Act of 2002 proposes a number of policy changes that would increase voucher success and utilization. Vouchers are an important piece in our Nation's housing puzzle. We waste resources, diminish confidence in the program, and dash people's hopes for housing stability if PHA's hand out vouchers and recipients are unable to use them. The provisions in the bill make it more likely that these hopes will be realized in the future.

Thank you again for the opportunity to discuss these issues with you today.

PREPARED STATEMENT OF BENSON F. ROBERTS

VICE PRESIDENT FOR POLICY, LOCAL INITIATIVES SUPPORT CORPORATION

APRIL 11, 2002

Good afternoon, Mr. Chairman and Members of the Committee. My name is Benson Roberts. I am Vice President for Policy at the Local Initiatives Support Corporation. I appreciate the opportunity to comment on the Housing Voucher Improvement Act of 2002.

LISC helps neighbors build whole communities in over 300 cities, towns, and rural areas through 38 offices nationwide. In 21 years, LISC and its affiliates have raised from the private sector and provided \$4 billion to help over 2,000 nonprofit low-income community development corporations (CDC's) across the country to produce over 110,000 affordable homes and over 14 million square feet of commercial and industrial space. We also invest major resources in jobs and income programs, childcare facilities, youth programs, crime and security initiatives, and many other programs that directly benefit low-income neighborhoods and their residents. The CDC's have used LISC's funding to raise over \$7 billion in investment. We are deeply involved in and deeply committed to meeting the needs of low-income families and communities.

The Need for Thrifty Production Vouchers

The Housing Voucher Improvement Act would create a new kind of project-based “Thrifty Production Voucher” in conjunction with new construction or substantial rehabilitation. Thrifty Production Vouchers could be combined as necessary with any

¹¹ U.S. Department of Housing and Urban Development, Notice PIH 2001-41, Section 8 Tenant-Based Assistance (Enhanced and Regular Housing Choice Vouchers) For Housing Conversion Actions—Policy and Processing Guidance (November 14, 2001), available at http://hudclips.org/sub_nonhud/cgi/pdf/forms/01-41p.doc.

capital subsidy program, such as Low-Income Housing Tax Credits, HOME, or CDBG, or the proposed affordable housing trust fund. Thrifty Production Vouchers would be limited to 25 percent of units in a property (with exceptions for single-family properties and properties serving elderly and disabled residents and, in some locations, supportive housing for families and other singles).

LISC strongly supports the Thrifty Production Voucher proposal.

Low-Income Housing Tax Credits and HOME are both excellent capital subsidies for affordable housing production. Both are flexible resources administered by States and localities (HOME only). Both reach genuinely low-income families. Both are cost-effective. Both are popular among nonprofit and for-profit developers, private financing sources, and State and local government.

However, there is a limit to how far any capital subsidy program can go to serve extremely low-income (ELI) families with incomes below 30 percent of median. Most ELI families cannot afford to pay rent high enough to carry the operating expenses of housing, even if the development cost is fully subsidized and there is no mortgage to be repaid from rents. As a result, it is not surprising that a recent HUD study found that while nearly half of all HOME-funded rental housing serves extremely low-income households, those households in this category who lack rental assistance paid an average of 69 percent of income for rent. This finding should not be read as a criticism of HOME, but a simple and unavoidable math problem. The same issue would arise for any capital subsidy program.

The solution would be to provide some form of project-based rental assistance in conjunction with capital subsidies so that housing that is produced could serve extremely low-income tenants at rents they can afford over the long term. However, Congress has been reluctant to support project-based rental subsidies.

- Unless restricted to a modest portion of a property—that is, 25 percent—these subsidies could insulate properties from the healthy discipline of having to compete for tenants in the private market. Moreover, extremely low-income tenants could be excessively concentrated within certain properties, instead of participating in more mixed-income housing. These concerns can be easily addressed by limiting the share of a property that can receive subsidies. The project-based Section 8 amendments that Congress approved in 2000 followed this approach.
- The more difficult problem is the cost of renewing rental subsidies. Appropriators understand that they will be expected to renew rental subsidies each year for an indefinite period. Even tenant-based Section 8 vouchers are expensive to renew—about \$6,000 per voucher every year. As a result, appropriators are reluctant to fund incremental vouchers to begin with.

The Cost-Effectiveness of Thrifty Production Vouchers

Thrifty Production Vouchers are designed to address this cost problem.

What makes a Thrifty Production Voucher cost-effective is that the “payment standard” would be the property’s operating cost, instead of the housing authority’s payment standard based on the fair market rent (FMR) that is used for regular vouchers. Like regular project-based vouchers, tenants’ share of the rent and utilities would be limited to 30 percent of adjusted income. Operating expenses would not include mortgage debt service, but would include owner-paid utilities, contributions to reserves, an asset management fee, and a modest cashflow allowance.

Since these operating costs are generally substantially below the FMR, a Thrifty Production Voucher would cost at least about one-third less than a regular voucher. If the operating cost is below the maximum, which is particularly likely in areas with high FMR’s, the savings will be greater. A *cap* on the amount of operating expenses that could be covered would be set at 75 percent of the regular voucher payment standard, to ensure that Thrifty Production Vouchers live up to their name.

Based on data from properties insured by the Federal Housing Administration, HUD consultants estimated that the average per unit operating cost in 1998–2000 was \$242 (in 2000 dollars). Larger units will have somewhat higher costs, but newly produced units and units in partially assisted developments will have lower costs. These data do not include taxes, utility costs, a replacement reserve, or a cashflow allowance. Even if these additional expenses were to increase the average operating cost by \$200, however, this average would still be substantially less than 75 percent of the average national fiscal year 2002 FMR for a 2-bedroom unit, which is \$522.

Example

If the housing authority’s payment standard, set at 100 percent of the FMR, is \$700 monthly and the tenant’s share of the rent and utilities is \$200, a regular voucher costs \$500. If the operating cost allowable, or \$525, then a Thrifty Production Voucher would cost \$325, or 35 percent less than

a voucher. If the operating cost is below the maximum, the savings will be greater.

Thrifty Production Vouchers may cost as little as 36–60 percent of the cost of regular project-based vouchers in areas with high FMR's, such as the San Francisco, Boston, Denver, and Newark metropolitan areas.¹

Since subsidies would generally be limited to 25 percent of the units in a property, the owner could set the property's overall operating budget, limited only by the cost cap noted above. Owners would be strongly motivated to minimize operating expenses, since they would have to bear at least 75 percent of any unnecessary expenses.

The ability to set the operating budget should enable owners to make a long-term commitment to participate in the Thrifty Production Voucher program. Owners would not have to worry that another entity would arbitrarily set the operating budget at an unworkably low level.

How Thrifty Production Vouchers Would Work

- New Thrifty Production Vouchers would be distributed under the formula used for HOME funds. This could work as follows: if Congress appropriates funding for 10,000 Thrifty Production Vouchers, the total amount appropriated would be divided among the States based on the share of HOME funds that the State and any participating jurisdictions within the State receive. Eligible, interested PHA's within the State would apply to HUD for a portion of the State's allocation, just as PHA's now do with "fair share" allocations for regular Section 8 vouchers. (If the housing trust fund or other new production initiative were enacted, the distribution formula could be modified to be consistent with the new subsidy stream.)
- New allocations would go to current Section 8 administrators. PHA's that do not also administer capital subsidies would be required to coordinate allocations with administrators of capital subsidies and would be eligible for new Thrifty Production Vouchers only if they demonstrate such an agreement.

This would allow for one-stop shopping for housing sponsors, facilitate implementation of tenant mobility as described below, and respect the current roles that different public agencies play.

Section 8 administrators that already project-base 20 percent of their existing voucher portfolios could exceed the cap with new allocations of Thrifty Production Voucher assistance.

- Thrifty Production Vouchers would be provided only for ELI households. The subsidy would cover the gap between the actual operating expenses (or the rent cap, if lower) and 30 percent of tenant income. Families would not lose their subsidies if their incomes increase above the ELI level. Ordinary voucher rules would apply: families would remain eligible for assistance until 30 percent of their adjusted income equals the allowable rent and utilities.
- Limiting Thrifty Production Vouchers to 25 percent of the units in a property would prevent the overconcentration of poor tenants and instill market discipline. For 1–4 unit properties, elderly, disabled, or supportive housing with project-based subsidies on more than 25 percent of the units, the Section 8 administrator could review the project's operating budget to determine if operating costs are less than the maximum payment standard permitted.
- The initial rent subsidy *term* would be 15 years, with renewals through the Section 8 Housing Certificate Fund at least through year 40.

Subsidies would be subject to appropriations after the first year, in recognition of Congressional budget rules. If Congress does not fund the rental subsidy, then sponsors would be subject only to the income targeting and rent limits required under other programs assisting the property (that is, Housing Credits, HOME, CDBG, public housing capital funds, or a future housing trust fund). It should be noted, however, that Congress has always renewed all Section 8 subsidies.

Sponsors would have to agree to accept rental subsidies for 40 years, subject to appropriations.

¹ These estimates are based on a comparison of the expense level estimated for public housing units in these areas by the Harvard Graduate School of Design (see http://www.gsd.harvard.edu/research/research_centers/phocs/news.html), increased by \$200 per unit to account for taxes, utility costs, an asset management fee, a replacement reserve, and a modest cash flow allowance, with 110 percent of the applicable FMR. (This comparison is used because project-based vouchers can pay up to 110 percent of FMR even if this subsidy level exceeds the PHA's payment standard, so long as the amount is reasonable for the particular units.)

- The Thrifty Production Voucher cannot support debt service on assisted units. This means that a full capital subsidy will be needed for the ELI portion of a property. Even with Thrifty Production Vouchers, some projects may need a larger capital subsidy to serve ELI tenants. However, many sponsors are already using capital subsidies to reduce rents below market on some units. In addition, rents on at least 75 percent of the units would be available to support a mortgage.
- Properties located in lower-income neighborhoods could use Thrifty Production Vouchers if the PHA determines it would be consistent with the goal of deconcentrating poverty and expanding housing and economic opportunities or revitalizing a low-income community, or will prevent the displacement of extremely low-income families. Fair housing requirements would apply. The lower-income neighborhoods would be the same as Qualified Census Tracts in the Low Income Housing Tax Credit program: they have a poverty rate of at least 25 percent or at least one-half of the households have incomes below 60 percent of the area median income.
- Thrifty Production Voucher landlords could use a site-specific waiting list if the Section 8 administrator agrees and if the agency and owner comply with certain procedures to ensure fairness to applicants on the PHA's waiting list and to meet fair housing concerns.
- Thrifty Production Vouchers would have most other features of the current project-based voucher program, including mobility, but would not replace the current project-based program, as they cannot compete in the market for existing housing and cannot cover debt service. Mobility provisions give departing tenants priority access to Section 8 vouchers.

The Attraction of Thrifty Production Vouchers

We believe that Thrifty Production Vouchers should be attractive to the various participants in the affordable housing production system.

- *Housing sponsors* could use Thrifty Production Vouchers to serve at least some extremely low-income families at affordable rents that will contribute to project stability. Serving these tenants will help sponsors to compete more effectively for allocations of Low-Income Housing Tax Credits, a scarce resource rationed in part based on serving especially low-income tenants.

The requirement that PHA's coordinate with capital subsidy administrators offers developers a streamlined way to assemble a viable financing package.

The ability to set the operating budget should enable owners to make a long-term commitment to participate in the Thrifty Production Voucher Program.

Owners would not have to worry that another entity would arbitrarily set the operating budget at an unworkably low level.

In the unlikely event that Congress does not renew Thrifty Production Vouchers, owners would have to meet only the income targeting requirements of other housing subsidies they receive. This provision would protect the property's financial stability.

- *Private investors and lenders* should be comfortable with Thrifty Production Vouchers. Although Thrifty Production Vouchers would not add to the cashflow available to pay debt service, they should add financial stability to properties that serve extremely low-income tenants, thereby reducing risks. The initial 15-year term equals the recapture period for Low-Income Housing Tax Credits.
- *Public housing agencies* could use the Thrifty Production Vouchers to grow their Section 8 programs, without increasing costs or reducing the number of families receiving tenant-based vouchers.

Section 8 administrators would be permitted to convert existing voucher authority to Thrifty Production Voucher assistance and assist more households in light of the lower cost. PHA's that use this flexibility could exceed the usual 20 percent limit on the total number of vouchers that may be project-based, without reducing the number of families receiving regular tenant-based Housing Choice Vouchers.

For example, a PHA that administers 1,000 vouchers is permitted to project-base up to 200 of these vouchers. For the equivalent cost of 200 regular project-based vouchers, it could serve about 266 households using Thrifty Production Vouchers (or more, if the payment standard is below the 75 percent cap). Without a budget increase (except for a small increase in administrative fees), it could serve 1,066 households; 800 families would still receive tenant-based vouchers, and 266 households receive project-based assistance.

Once allocated to properties, PHA's should find it convenient that Thrifty Production Vouchers would follow virtually all the same rules as other vouchers, except that PHA's would have to follow relatively simple steps annually to consider increases in the payment standard. Thrifty Production Vouchers also offer PHA's an opportunity to participate more fully in housing production efforts.

- *State and local agencies* that administer HOME, Housing Credits, or other capital subsidies should welcome the availability of Thrifty Production Vouchers as a valuable tool to serve extremely low-income tenants in new and rehabilitated housing. PHA's would have to coordinate the use of Thrifty Production Vouchers with capital subsidy administrators.

Conclusion

This concludes my testimony. I would be pleased to answer any questions you may have.

**RESPONSE TO WRITTEN QUESTION OF SENATOR AKAKA
FROM OPHELIA B. BASGAL**

Q.1. Ms. Basgal, in your testimony, you also mentioned Section 3 in the proposed legislation that would authorize “Thrifty Production Vouchers.” You recommend that Public Housing Authorities notify a small number of applicants rather than everyone on the list. While this would be more cost efficient, would the practice lead to complaints against Public Housing Authorities, citing discriminatory selection methods?

A.1. Senator Akaka, my recommendation envisions the Housing Authority notifying families who are at the top of the waiting list of the availability of the “Thrifty Production Voucher” units. There would be no skipping of families on the list and families would be notified in order. If families indicated they were not interested in the Thrifty Production Voucher units, the Housing Authority would move down the list notifying the next families until a sufficient number had indicated an interest and been selected as tenants. Therefore, there should be no complaints about discriminatory selection practices since these families would be offered the units in order of their placement on the wait list.

My recommendation was in response to lack of clarity in the Thrifty Production Voucher proposal, which seemed to require the Housing Authority to notify everyone on the waiting list of the availability of the units. As you know, Housing Authorities often have thousands of families on their waiting lists. To notify all of them of the availability of a small number of Thrifty Production Voucher units is not only costly and inefficient, but it is also unfair to the families since there would likely to be some preference for families at the top of the wait list.

I would also note that my recommendation follows the Housing Authority practice for Section 8 Moderate Rehabilitation units, which are also project-based units like the proposed Thrifty Production Vouchers. We begin at the top of the wait list, moving down until families indicate an interest in the units and are selected for the Mod Rehab Units.

**RESPONSE TO WRITTEN QUESTION OF SENATOR AKAKA
FROM SCOTT GARDNER**

Q.1. Mr. Gardner, in your testimony, you discuss Section 9 in the proposed legislation regarding the unit inspection process that landlords are required to follow. Under this section, payments may be made to a landlord prior to the inspection of a unit if a building inspection has been conducted by the Public Housing Authority in the last 6 months, the unit inspection is completed within 30 days, and the Public Housing Authority and the landlord have an agreement that any repairs on the unit must be made within 30 days of the unit inspection. According to your testimony, inspections of each unit would delay resident occupancy and would be costly to Public Housing Authorities to implement. As you may know, some housing units available to low- and moderate-income families do not meet what most of us would consider suitable living conditions. If individual unit inspections were not required, how would such health and safety issues be addressed?

A.1. The portion of my testimony regarding the delays experienced by owners waiting for inspections was concerned mainly with the way the system is currently administered. This is one reason that owners may not choose to participate in the voucher process. In my testimony I expressed support for the provisions in Section 9 that would streamline or eliminate repetitive inspections. However, Section 1 allows the PHA to decide if they will inspect a reasonable number of units and waive inspection if no major deficiencies are found. This would permit a wide variation in the inspection policies from PHA to PHA and undermine the consistency that you are trying to accomplish. If an owner is participating in the program and consistently provides units that meet the HQS standards, then I believe an occasional property level inspection should be adequate.

The bigger issue is that, by improving the transparency of the program, you will have wider acceptance of the voucher program by owners that had previously been unwilling to participate due to the perception of the additional effort needed to accept the voucher. I believe that the very reason that some of the units available to low-income families do not meet what most of us consider suitable living conditions is that the pool of owners that are willing to accept the vouchers is not as large as it needs to be. Owners with units that compete in the conventional markets are more likely to have fewer health and safety issues than those who have chosen to only cater to those eligible for vouchers. The whole purpose of making the voucher process as seamless as possible is to broaden the spectrum of units available to low-income families.

As I stated in the question and answer portion of my testimony, these residents are not “trapped” as they were with the old project-based subsidy programs, they are free to move if the unit proves unsuitable and, in fact, are forced to move now if the owner is unwilling to make the necessary repairs. I believe that we have to give the residents some credit to be able to determine if a unit is suitable for them. As with any prospective resident, the voucher resident can preview the unit before signing the lease. Perhaps the local PHA could provide them with a basic checklist so they can do their own inspections.

There are approximately 6.4 million apartment units that qualify within the Fair Market Caps for the voucher program. Given a conservative turnover rate of 40 percent, that would provide well over 2.5 million units that would be available in a given year if all owners participated in the program. Facilitating participation by all owners will give the prospective resident an even greater choice of housing options and also empower the resident to make their own choices about where and how they wish to live and raise their families.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR AKAKA FROM ANN O'HARA

Q.1. Ms. O'Hara, in your testimony, you discuss increasing the voucher success rate to 85 percent for Section 5 in the proposed legislation. Under Section 5, Public Housing Authorities would be allowed to increase their voucher payment standard to 120 percent of the Fair Market Rent if certain criteria are met. The voucher success rate reflects the proportion of families who are issued

vouchers and lease a unit within the specified timeframe. You also mentioned the study released by the Department of Housing and Urban Development which found “that the national success rate for vouchers was 69 percent in 2000 for large metropolitan public housing agencies.” In light of this information, would increasing the 80 percent voucher success rate to 85 percent prevent some Public Housing Agencies from taking advantage of this provision to expand housing opportunities for voucher holders?

A.1. In our testimony, we recommended a voucher success rate of 85 percent or below as one of the eligibility criteria for a public housing agency (PHA) to be able to increase its payment standard to 120 percent of the fair market rent. For this purpose, a voucher success rate of 85 percent or below would permit more, rather than fewer, PHA’s to increase their payment standards. Only those PHA’s with success rates above 85 percent, rather than 80 percent (and those without a payment standard already at 110 percent of FMR) would not be able to take advantage of the increased payment standard. This recommendation would achieve consistency with the eligibility threshold for provisions that would allow the use of unutilized funds for voucher success activities and would create the Voucher Success Fund. We are not firmly wedded, however, to the standard of 85 percent as the threshold for increasing the payment standard to 120 percent and could be persuaded that such a standard would allow too many PHA’s, including relatively successful PHA’s, increase their payment standards.

Q.2. Ms. O’Hara, in your statement, you discuss Section 3 in the proposed legislation that would authorize “Thrifty Production Vouchers.” These vouchers would be used by developers who receive tax credits or HOME funds to expand housing and economic opportunities to low-income families. Under this section, Public Housing Authorities and owners would be responsible for maintaining and managing separate waiting lists. You stated that Public Housing Authorities may fail to inform participants of any openings. What steps should Public Housing Authorities take to ensure the proper dissemination of this information to low- and moderate-income families?

A.2. As you have noted, we believe that it is important that existing tenants on a PHA’s waiting list learn of and have access to new Thrifty Production Voucher (TPV) Units that become available. The bill requires that a PHA provide notification of the availability of the TPV Units in the same manner as it would for the opening of its overall waiting list for new applicants generally. HUD’s “Housing Choice Voucher Guidebook” provides the following guidance for the opening of the waiting list:

PHA’s must affirmatively further fair housing opportunity. Before opening the waiting list, the PHA must advertise in a local newspaper of general circulation and also through minority media and other suitable means. A PHA’s advertising or outreach plan must be included in the PHA’s administrative plan. The announcements must include information on the time and place of application taking. If the application period is limited, the announcement must provide clear information on the end of the application period. The public notice must

also state any limitation on who may apply for the available slots in the program.

There are a variety of ways that a PHA could follow this general guidance so that more low-income families would learn of this new opportunity, such as advertising in several outlets, providing the information to community-based organizations that work with eligible families, and permitting application in a manner that does not require applicants to miss work, among others.

We believe that the legislation could ensure that families already on a PHA's waiting list—who may have been waiting for a housing opportunity for several years—have the opportunity to take advantage of newly available TPV units. We understand and very much hope that the legislation may be changed from the draft available prior to the April 11 hearing to accomplish this outcome.

**NATIONAL LOW INCOME
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